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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Financial risk, food security, supply chains and energy to shape 2008

The World Economic Forum identified systemic financial risk, food security, supply chains and the role of energy as the four emerging issues that may fundamentally shape 2008 as well as the decades to come, adding that these issues are all central to the functioning of the world economy and to the well-being of global society. It said that systemic financial risk is the most immediate and, from the point of view of economic cost, the most severe. With so many potential consequences of the 2007 liquidity crunch unresolved, the outlook for the future is more uncertain at the beginning of 2008 than it was a year ago. Also, food security may be emerging as one of the major risks of the 21st century, as long- and short-term drivers may be shifting the world into a period of more volatile and sustained high prices.

Further, extended supply chains, which have allowed global economic integration to flourish in the last two decades, may be concealing increased vulnerability of the global system to disruptive risks. Finally, the safe, secure and sustainable provision of energy is increasingly problematic, as the incentives in place to reform the global energy economy in a way that reduces global risk are not in place. The WEF said the risks associated with the four emerging issues cannot be eliminated but they can be better understood and better managed.
Source: World Economic Forum

Political freedoms regress in 2007

In its annual survey of political freedoms around the world, non-profit organization Freedom House said the world saw a notable setback in freedom in 2007. It said the decline was reflected in reversals in one-fifth of the world's countries, was most pronounced in South Asia, and reached significant levels in the former Soviet Union, the Middle East & North Africa, and sub-Saharan Africa. It affected a substantial number of large and politically important countries whose declines have wider regional and global implications. Freedom House considered that 90 countries were 'Free' in 2007, unchanged from the previous year's survey, and representing 46% of the global population. It added that 60 countries were 'Partly Free', up by two from the previous year, and represened 18% of the world population. Also, 43 countries were judged 'Not Free', down by two from 2006, and representing 36% of the global population. It noted that the number of electoral democracies dropped by two to 121 in 2007.
Source: Freedom House

MENA

Region posts highest unemployment rate in the world

The International Labor Organization (ILO) said the Middle East and North Africa regions had the highest unemployment rates in the world in 2007, at 11.8% and 10.9% respectively. It noted that the Middle East’s employment-to-population ratio, or the share of people of working age who were employed, increased considerably from 46% in 1997 to 50.1% in 2007, driven by an increase of more than 7% in female employment. It said unemployment declined by 1.1% in the region over the 2002-07 period and improved from 13% in 1997 to 11.8% last year. But it expressed concern about the unemployment trend, as the total number of unemployed was 33% higher in 2007 than it was in 1997, while labor productivity decreased within the same period.

The ILO indicated that North Africa posted the second highest unemployment rate in the world at 10.9% in 2007, down from 11% in 2006 and 11.7% in1997. It also had the lowest employment-to-population ratio in the world at 45.3% last year, up from 43.7% in 1997. The ILO said productivity levels increased in North Africa by more than 16% in the last 10 years, as extreme working poverty is now almost eradicated at 1.6% of the employed population.
Source: International Labor Organization

IRAN

Chinese, Bahraini banks stop business with Teheran

An Iranian Foreign Ministry official said Chinese banks have cut back business with Iranian banks for the past four months due to U.S. pressure over Tehran's nuclear program. The U.S. has urged international banks and companies to stop dealing with or investing in Iran. But China has expanded commercial ties with Teheran in recent years and has been reluctant to impose tough economic sanctions on the country. Iran was China's third-largest supplier of crude oil in 2007, with volumes rising by 22.4% from the previous year.

In parallel, Bahrain's Ahli United Bank (AUB), the kingdom's largest bank by market value, suspended business with Iran following U.S. pressure to isolate Tehran over its nuclear activities. AUB froze the Iranian operations of its Future Bank affiliate, which it established in 2004 as a joint venture with Bank Saderat Iran and Bank Melli Iran, both under U.S. sanctions currently. Further, banks in the United Arab Emirates have reportedly stopped issuing letters of credit to Iranian companies.
Source: Reuters, Gulf News

JANUARY POLITICAL RISK OVERVIEW

ALGERIA

The United Nations claimed that the government failed to respond to the repeated requests for enhancing security prior to the UN buildings bombing on December 11th. UN Secretary-General Ban Ki-moon appointed an independent panel to review the staff security. Algeria's PM Belkhadem said that the unilateral UN review was "unwelcome". Terrorist attacks continued. A roadside bomb killed 4 soldiers in south of Tizi Ouzou, on January 9th. At least three were killed after the police shot at an explosive-filled vehicle heading towards the police station in the North on January 29th.

ARMENIA

The campaign for the presidential election started on January 24 after the official registration of 9 candidates on January 18th.

EGYPT

Egyptian police rounded up over 800 members of the Muslim Brotherhood group accused of holding illegal protests against Israel. Arrests included senior figures. Palestinians were allowed to enter the limited area of Sinai after the border wall was destroyed on January 23rd. At least 300 Palestinians were detained for carrying weapons or during clashes with the border guards. Israel urged Egypt to close the border. Egypt is working with Hamas to restore order and said that it would prefer the president of the Palestinian Authority, Mahmoud Abbas, to take control of the breached border between Gaza and Egypt.

IRAN

After months of negotiations, the Security Council's five Permanent members (P5) plus Germany have agreed on January 24 on the contents of a new draft resolution of a third set of sanctions. The proposed measures include travel bans on certain individuals and further limits on supply, sale or transfer of dual-use items. Tehran has repeatedly said penalties will not force it to halt its uranium enrichment. President Bush accused Iran of being a threat to the global security on January 13 in a speech to the Gulf States.

IRAQ

The parliament passed the "Accountability and Justice Law" on January 12, allowing former Baath party officials to return to public life. The measure faced criticism as it sends even more Baath members into early retirement. PM Nouri Maliki announced the start of a major offensive against al-Qaeda militants in northern city of Mosul after the deterioration of security. Over 30 died in an explosion on January 23rd. Clashes erupted in the south between the government forces and the Shiite "Soldiers of Heaven" cult group in Nasiriya and Basra on January 18th. A wave of suicide attacks occurred around the country over Shiite Ashura festival. The radical Shiite cleric Moqtada Sadr warned that the 6-month ceasefire held by his Mahdi Army militia is due to expire in February. The end of the month saw attacks on the remaining UK troops in Basra.

KAZAKHSTAN

The former son-in-law of President Nazarbayev, Rakhat Aliev, was sentenced in absentia on January 15 to 20 years on multiple charges, including corruption and kidnapping.

MOROCCO

Close royal adviser Fouad Ali al-Himma launched the "Movement for all democrats" on January 17th. The move was seen as a preliminary to the creation of a new political party

SUDAN

Security in West Darfur worsened with the Chadian army conducting air raids inside the Sudanese territory. Sudanese Armed Forces (SAF) attacked the UN/AU (UNAMID) convoy near Tine on January 7th. Khartoum continued to obstruct the UNAMID deployment while appointing Musa Hilal, leader of the Janjaweed militias, as a special adviser to the Ministry of Federal Affairs. UN and AU Darfur envoys, Salim Salim and Jan Eliasson, stressed on January 19 the deteriorating relations between Chad and Sudan but said that a preparation is underway for another round of Darfur pre-negotiations among rebels in the next 6 weeks. The SLM-Unity led by Abdallah Yahya, agreed to take part. Abdelshafi in Juba declined, preferring further SPLM initiative. Abdel Wahid and Khalil Ibrahim of the JEM conditioned their participation. The SAF moved out of south Sudan's oil-producing areas on January 9, according to new agreement between the SPLM and the National Congress Party, although the SPLM claims that not all the redeployment is achieved.

SYRIA

Foreign Minister Walid al-Moallem said on January 2 that Syria will stop cooperation with France to solve the Lebanese crisis. The Move came in response to the French year-end decision to halt contact over alleged obstruction. Arab League Secretary-General Amr Moussa said on January 19 that talks in Damascus were "totally positive" but there will be no breakthrough.

TURKEY

Turkish warplanes bombed the Kurdistan Workers Party (PKK) bases in northern Iraq on January 15th. It was the fourth wave of cross-border aerial attacks since December 16th. A bomb explosion targeting a military vehicle in the southeast killed seven on January 3, including five school pupils. The PKK apologized. PM Erdogan announced on January 10 a plan to discuss the EU bid with the German Chancellor Merkel, and the French President Sarkozy in early 2008. The Ruling Justice and Development Party (AKP) agreed on January 28 to lift the ban on woman in university wearing headscarfs.

UKRAINE

President Yushchenko urged the abolition of the parliamentary immunity on January 22nd. PM Yulia Tymoshenko and Verkhovna Rada Speaker Arseniy Yatsenyuk sent a letter to the NATO on January 15 requesting a Membership Action Plan. Tymoshenko announced a plan on January 29 to renegotiate the energy agreement with Moscow.

YEMEN

Although a peace agreement was signed between the government and Al-Houthi Shiite rebels in June 2007, fighting resumed after clashes killed 30 people on January 9-10th. The government declared a state of emergency in the region.

Source: International Crisis Group

OUTLOOK

WORLD

Negative rating actions likely to continue in 2008

Fitch Ratings said that the likelihood of a slowdown in economic growth, continuing elevated levels of market risk, and a move away from the very low levels of credit defaults seen since 2004 will all likely contribute to a continuing trend of negative rating actions during 2008. The agency noted that the pace and scale of negative rating activity will be affected by the role of credit ratings as guides to relative default likelihood rather than market pricing or economic activity. The majority of ratings at the portfolio level are still anticipated to remain stable over 2008, but there will be a strong bias toward negative actions over positive actions. It also said that the broadly positive rating trend that has characterized emerging markets issuers in recent years is expected to slow significantly in 2008. Fitch also expects, with regard to investor sentiment, that given the broad variety of sectors facing negative asset or business environments, any improvements in individual sectors are likely to be offset by further deterioration in others.

According to Fitch, the average ratings of regulated financial institutions remain at a strong level despite the scale of market turmoil. Current expectations are that only a limited likelihood exists of widespread or multi-notch downgrades. It acknowledged that risk management appears to have made a meaningful difference in the relative performance of individual institutions, but also notes that several more quarters' reporting are likely to be required before confidence in bank exposure levels can begin to be restored. Fitch also anticipates that financial and business risk issues will re-emerge for corporate entities in rating activity in 2008, ahead of the event-risk related actions prevalent in 2007.

Source: Fitch Ratings

EMERGING MARKETS

Further decline of dollar could press sovereign ratings

Moody's Investors Service stated that a further depreciation of the US dollar would likely be mostly positive, as several emerging market countries' ratings could experience some upward pressure. However, the extent to which such an event is a credit positive is critically dependent on whether the depreciation is orderly or precipitated, as a full-fledged dollar crisis would clearly be negative for many countries. Moody's said that countries with large proportions of dollar-denominated external debt; those which have substantial foreign currency assets; those whose economies are already facing competitiveness challenges; and countries whose currencies are linked to the US dollar will all be subjected to different consequences as a result of further dollar weakness. It noted that some of those outcomes will be ratings-positive but others could aggravate existing imbalances, potentially with adverse rating effects.

According to Moody's, the impact of an orderly US dollar decline on debt metrics in some developing countries such as Turkey, Uruguay and the Philippines, would be positive from a local currency perspective, while for others such as Brazil, Colombia and Peru, the exchange-rate developments could at least provide some tailwind for favorable debt trajectories. It warned that a sharp rise in an emerging economy's currency against the dollar would not necessarily be a credit positive from a rating perspective, as the effect of the rise would depend on whether the country uses the weak dollar period to 'lock in' a reduction in the debt burden. In parallel, the dollar's weakness could potentially exert negative ratings pressure in case of real currency appreciation. This particularly holds for economies that have large current account deficits and considerable external financing needs. Countries whose currencies are linked to the dollar may also suffer, since they are already struggling to deal with excessive liquidity and overheating phenomena.

In parallel, the agency said that advanced economies are less vulnerable than emerging markets to any kind of external shock, as the effect of further dollar depreciation would be marginal on industrialized nations, carrying no rating implications, with economic effects depending on the countries' ability to adjust.

Source: Moody's Investors Service

GCC

Public spending hikes could impact future ratings

Moody's Investors Service said the rise in expenditures by governments across the GCC risks triggering an inflationary spiral that would be difficult to control in the absence of other policy options and would further raise fiscal pressures. It added that the consequences for governments' creditworthiness and ratings are limited in the short to medium-term, but warned that there could be longer-term adverse implications. The agency said that GCC governments face multiple pressures to raise expenditure, as they feel socially obliged to redistribute oil wealth through higher public spending, typically resulting in a pro-cyclical fiscal policy. They also have to raise public investment levels in order to stimulate private investment, foster economic diversification, and raise potential growth rates.

It said inflation is an increasingly important driver of government expenditure hikes. Inflation rates rose sharply across the GCC over the past two years, thus eroding purchasing power, leading to demands for increases in government salaries and subsidies and significantly raising the cost to governments of purchasing goods and services. It warned that governments' attempts to offset the effects of inflation by raising salaries and subsidies risk exacerbating price growth by stimulating demand, which would in turn generate further calls for spending hikes. Such an inflationary spiral would be difficult to control in the absence of other policy options, as Gulf states' fixed exchange rate pegs and open capital accounts rule out a significant tightening of monetary policy.

Moody's acknowledges that the robust creditworthiness of GCC governments is unlikely to be undermined by strong spending growth over the short to medium-term. But there could be longer-term adverse implications such as the riskthat governments will find themselves dependent on ever higher oil prices to balance their budgets, making it more difficult for them to adjust in the event of a downturn in revenues. Large increases in current expenditure are of particular concern as they are more difficult to reverse than hikes in capital spending in the event of a potential downturn in revenues.

Source: Moody's Investors Service

ECONOMY & TRADE

UAE

Ras Al Khaimah assigned ratings

Standard & Poor's assigned the Emirate of Ras Al Khaimah (RAK) a long-term foreign and local currency rating of 'A' and a short-term currency rating of 'A-1'. The rating reflects the UAE's capacity to cover RAK's modest liabilities, and the likelihood of extraordinary support in the event of financial stress. S&P estimated RAK’s debt at just 16.5% of GDP, while the government's holding of liquid assets gives the emirate a net asset position of around 25% of GDP. The agency said wownward pressure on the rating could result from a worsening of regional geopolitical tensions, a fall in demand for RAK's main outputs due to a regional downturn, or a deterioration in Abu Dhabi's creditworthiness. RAK becomes the 118th sovereign to be assigned a credit rating by S&P.

In parallel, Fitch Ratings assigned to RAK Long-term foreign and local currency Issuer Default Ratings (IDR) of 'A', with stable outlooks. The agency said the ratings are supported by RAK’s relatively diverse economy, rapid economic development and high per capita income and the government's prudent fiscal policy and strong balance sheet. It added that debt has only recently begun to grow as infrastructure spending has accelerated. RAK also benefits from the institutions and resources of the UAE, although it retains considerable autonomy, especially in the areas of economic development and budgetary policy.

Source: Fitch Ratings, Standard & Poor's

EASTERN EUROPE

Outlook changed to 'Negative' on four sovereigns

Fitch Ratings revised the Outlooks of Bulgaria, Estonia, Latvia and Romania to Negative from Stable for their Long-term foreign and local currency Issuer Default ratings (IDRs). At the same time, the agency affirmed the sovereigns' Long-term foreign and local currency IDRs, Short-term foreign currency IDR and Country Ceilings. It attributed the change in outlooks to the fact that current account deficits in the four countries have risen to levels that look alarmingly stretched by current global or historical standards, adding that external deficits that were easy to fund in times of abundant liquidity and risk appetite may be harder to finance following the global credit shock.

Fitch added that the negative outlooks reflect the heightened downside risk of an abrupt slowdown in capital inflows and a costly macroeconomic adjustment. It estimated the current account deficits of the four economies to be the highest among all of the 105 Fitch-rated sovereigns. It estimates the 2007 current account deficit of Latvia at 25% of GDP, Bulgaria at 19.5%, Estonia at 16%, Romania at 14% and Lithuania at 13.7%.

Source: Fitch Ratings

MOROCCO

Tourism revenues at $7.6bn in 2007

The number of incoming tourists reached 7.4 million in 2007, up 13% from 2006 figures and constituting the highest tourist-count in four decades. Provisional statistics also showed a jump of 12% in tourism revenues to 59bn dirhams ($7.6bn). Since 2001, Morocco has seen the number of visitors rise by 3 million, with a further rise of 2.5 million forecast within the next 3 years. The Tourism Ministry said tourism has become the chief source of investments and job creation in the Kingdom, as well as a driving force for sustainable development, contributing 8% of the country's gross domestic product. Morocco plans to welcome 10 million tourists in 2010 and the government believes it can deliver on its goal.

Source: Magharebia News

LIBERIA

IMF and World Bank agree on debt relief eligibility

The International Monetary Fund and World Bank have deemed that Liberia is eligible for assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative based on a preliminary assessment. In order to qualify for debt relief, Liberia needs to continue satisfactory performance under the current Staff-Monitored Program; reach understandings on appropriate targets for key economic, governance and structural reforms; and clear the arrears to multilateral creditors, or reach agreements with them on a strategy for arrears clearance. The IMF and World Bank said Liberia would also qualify for debt relief under the Multilateral Debt Relief Initiative from the World Bank's International Development Association and the African Development Fund, together with beyond-HIPC assistance from the IMF. Some Paris Club creditors are also expected to provide further relief and cancel 100 percent of their claims against Liberia.

Source: International Monetary Fund, World Bank

UKRAINE

WTO membership at hand

Ukraine signed a protocol about membership in the World Trade Organization. Ukraine will formally become a member 30 days after it ratifies the accession accord. On January 17, the EU agreed on the final terms for Ukraine to join the 151-member WTO, paving way for full membership. Besides the liberalization of the country’s external trade regime and easier access of Ukrainian products to external markets, WTO membership opens the prospect of a free-trade agreement with the EU, which would represent an important element in Ukraine’s integration into Europe’s economic space. President Yushchenko estimated that WTO membership would bring an extra 1.7% in GDP growth and a $3.5bn increase in foreign investment. This development comes after 14 years of intense negotiations, stalled under a succession of governments reluctant to speeding up Ukraine's economic integration with the world.

Source: Credit Suisse, Oxford Business Group

BANKING

QATAR

Largest Chinese bank to open branch

The Industrial & Commercial Bank of China (ICBC) announced that it has been cleared by the Qatar Financial Center Regulatory Authority to operate a full branch from the Qatar Financial Center (QFC). ICBC is the world's largest bank by market capitalization that reached $278bn as at end-January 2008. The branch would constitute the first time a Chinese bank has established operations in the Middle East. The bank said the branch will provide wholesale banking services as well as engage in consulting and trust and asset management. The QFC has been trying to attract international financial services institutions and major multinational corporations. ICBC expects to post net income of more than $10bn for 2007. The Qatar Investment Authority owns shares worth $206m in ICBC while the Kuwait Investment Authority holds $720m of the bank's stock.

Source: The Peninsula

TUNISIA

Central Bank raises reserve requirements

The Central Bank of Tunisia (BCT) increased reserve requirements for commercial banks by 150 basis points from 3.50% to 5% on January 30th. The move aims to reduce excess liquidity at banks and to help contain inflation. It also reflects a fear of global economic instability in 2008. The BCT last raised reserve requirements in November 2006 by 200 bps. It vowed to continue monitoring capital market fluctuations and to take decisive action in the event of a larger than expected slowdown. The BCT kept the benchmark interest rate on hold at 5.25% but did not rule out changes in the future. Despite inflationary pressures from soaring hydrocarbons and grain prices, the country's strong tourism receipts and remittances, in addition to the Tunisian dinar's appreciation against the dollar, have prevented so far any significant price inflation.

Source:

YEMEN

Doha Bank signs strategic deal with local bank

Doha Bank, Qatar's fifth largest bank by market value,Doha Bank signed a Memorandum of Understanding with the Cooperative & Agricultural Credit Agricultural Bank of Yemen (CACB) covering three investments. The MOU stipulates that Doha Bank will acquire a strategic stake in the capital of CACB, take equal participation in the capital of a newly proposed Islamic Bank in Yemen and form a joint venture for promoting insurance and related products in the country. Both sides have agreed to explore areas of synergy between the banks, while Doha Bank will advise its partner in knowledge, manpower and technical resources. The investment proposals are subject to necessary regulatory approvals.

Source: The Peninsula

NIGERIA

Non-performing loans drop to 7.7%

The Central Bank of Nigeria's assessment of the banking sector's soundness indicated that six banks were rated sound, 16 satisfactory and three marginal, while no bank was rated as unsound, reflecting the relative success of the ongoing consolidation. The sector's non-performing loans (NPLs) rose to N254bn at end-June 2007 from N209bn a year earlier, highlighting the deterioration in lending quality. However, NPLs fell to 7.7% of total credit from nearly 10% over the same period, reflecting a rise in overall lending. In parallel, the net profits of most major local banks remained robust in 2007, reflecting economic expansion and a high level of liquidity. The sector's performance was boosted by the maintenance of strong levels of capitalization, sound asset quality indicators, strong and growing domestic franchises, robust funding and liquidity, conservative risk profiles, and low levels of NPLs. Meanwhile, strong growth in assets and liabilities continued for the largest banks, as they extended a large volume of loans to small- and medium-sized enterprises, while retail customers provided around two-thirds of total deposits.

Source: Institute of International Finance

KAZAKHSTAN

Foreign reserves reach $40.7bn

Figures released by the National Bank of Kazakhstan show that foreign reserves, including the National Oil Fund assets, stood at $40.7bn at the end of January, up $2.3bn from the end of 2007. Gross foreign exchange and gold reserves of the NBK reached $19.2bn at the end of January compared to $17.4bn at the end of the previous month. Non-gold reserves rose by $1.6bn to $17.1bn in January compared to a decrease of $727m in December. The assets of the National Oil Fund increased by $509.9m to $21.6bn in January. In parallel, the annual growth rate in deposits continued to moderate from its peak at the beginning of 2007, as growth in local and foreign-currency deposits has declined to 32% and 15% year-on-year in January compared to the peak of 124% and 56%, respectively, a year earlier.

Source: Merrill Lynch

ROMANIA

Central Bank raises policy rate

The board of the National Bank of Romania raised the policy rate by 100 basis points to 9% from 8%. It attributed the increase to concerns about the recent moves in the exchange rate and its impact on inflation as well as its potential impact on the banking sector's stability. The NBR also cited the effects of rising household incomes and higher public spending in the run-up to forthcoming elections as well as uncertainties over the leu exchange rate trend amid persistent tensions affecting the world economy. The NBR also adopted tighter prudential regulations for foreign currency-denominated loans, as banks are now expected to have higher provisioning for credits extended to unhedged borrowers and that the scope of the provisioning requirements has also been broadened to non-bank financial institutions.

Source: Credit Suisse

ENERGY / COMMODITIES

Oil recovers above $87, output shutdowns support

U.S. crude for March delivery was 35 cents higher at $87.49 a barrel on Thursday, off early lows of $86.81 on top of a $1.27 fall a day earlier after a government report showed a surprisingly big build in U.S. petroleum stockpiles. London Brent crude was 38 cents up at $88.16. Analysts and traders said production shutdowns in the North Sea and in Nigeria, where Royal Dutch Shell said on Thursday it was halting 130,000 barrels per day of output because of pipeline leaks, was helping oil. But the overwhelming sentiment was still bearish.

Oil prices have fell from their January record above $100 on mounting concerns that the U.S. economy is slipping into recession which could hit other economies and curb oil demand. Fresh pointers to weaker demand emerged on Wednesday as a government report showed U.S. crude stockpiles rose 7 million barrels last week, well above forecasts for a 2.6 million barrel build, while gasoline stocks rose 3.6 million barrels to their highest level since February 1994. Refinery production rates slipped another 0.7% to stand a full 3% below a year ago, with weak underlying demand dampening profits. Prices fell sharply on Tuesday after an influential report showed the vast U.S. services sector contracted to recessionary levels in January, reinforcing fears oil demand will slow under the weight of high prices and the fallout from a housing slump. In addition to the souring economic outlook, fuel demand has been curbed this winter by milder than usual weather in the U.S.

Source: Reuters

Algerian state-owned banks to finance major Sonatrach projects

State-owned banks will finance newly launched Sonatrach projects totaling nearly $5bn. Crédit Populaire d’Algérie (CPA) will lend the company $2.1bn for the construction of an ammonium plant in Arzew, western Algeria, in partnership with Egypt's Orascom. Banque Extérieure d'Algérie (BEA) will extend an estimated $2.5bn towards the construction of another ammonium plant, in partnership with the Bahrain SGB World Group. According to a Sonatrach statement, the company is in negotiations with other state-owned banks to secure a total of $20bn in financing for additional energy projects.

Source: El Khabar

Iran sees steady gasoline imports

Iran is importing 15 million liters a day of gasoline and does not expect import volumes to change in the next 12 months. Iran is having no trouble buying fuel, even though some banks have stopped offering letters of credit on the deals.

Source: Reuters

Quality energy to build new $13bn refinery

Quality Energy Petro Holding International, which is owned by a member of Abu Dhabi's Al Otaiba family, plans to build a $13bn oil refinery in the UAE and seek Iranian crude as feedstock. Quality Energy will construct the 500,000-barrel-a-day plant with the government of Russia's Chel-yabinsk region, in which the company plans to invest $100bn between now and 2012.

Source: Gulf News

Base metals: Power outages send base metal prices higher

Base metal prices rebounded sharply this week amid a number of problems on the supply side. Aluminum was the strongest performer, rising more than 10% since January 23rd. Issues with power supply for miners in South Africa and China were the main driver for prices. In South Africa power supplier Eskom, which provides 96% of the electricity in South Africa, announced that miners have to expect cutbacks in electricity supply for the next 2-4 weeks. Already for quite some time, power generation capacities in South Africa struggle to keep pace with growing demand. What makes things worse is that 25% of power generation capacity is currently down for maintenance. At the same time, there is also news about power outages in China. The extremely cold weather and snow have exacerbated the already tense power supply situation in the southwest and central regions of China. Power supply for miners and smelters will remain an issue in China due to rising coal prices, which cut into margins of electricity producers.

Source: Credit Suisse

Precious metals: Negative US real interest rates should push gold prices higher

Problems with power supply in South Africa and the FOMC meeting were the main topics for precious metals prices this week. Despite the fact that the 50 bp interest rate cut by the Federal Reserve was largely priced in by the markets, precious metals prices reacted positively. After the interest rate cut, gold prices rose above $920. Already with the emergency cut of 75 bp on January 22, the US three-month Libor rate turned negative in real terms. The new interest rate cut pushed the real three-month Libor rate even further into negative territory. The emergence of negative real interest rates in the US has serious implications for gold prices. Since gold is a non-yielding asset, its price should benefit particularly in an environment of negative real rates, since opportunity costs for holding gold are negative then.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	232.4	213.4	205.8	5.8	25.7
LME metals price index	3720.7	3699.3	3851.4	9.7	5.7
Oil prices USD	91.6	86.2	75.6	-4.6	57.8
Oil prices SDRs	57.5	55.1	49.2	-5.6	48.1
Gold $/troy oz	923.1	773.0	719.5	10.4	41.4
Silver cents/troy oz	1674.0	1397.3	1365.3	13.4	25.3
Platinum $/troy oz	1731.0	1419.0	1343.3	13.2	49.2
Copper $/MT	7170.0	7298.8	7242.8	6.8	26.9
Nickel $/MT	27525.0	28768.6	36342.7	4.4	-29.6
Aluminium $/MT	2642.5	2447.4	2605.7	12.1	-6.4
Zinc $/MT	2391.5	2726.9	3119.7	0.3	-30.4
Steel - HR coil dry $/MT	605.0	579.1	558.7	0.0	18.6

Source: Credit Suisse

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	- -	- -	- -	- -	BBB Stable	9.4	14.0	3.1	5.4	1.9	3.7	14.4	0.8
Angola	- -	- -	- -	- -	BB Stable	3.8	10.9	13.8	14.5	5.3	41.2	31.6	2.4
Egypt	BB+ Stable	Ba1 -	BB+ Positive	BB+ Stable	B Stable	-6.9	82.5	21.9	55.2	6.0	109.2	1.4	4.6
Ethiopia	-	-	-	-	CCC Stable	-4.8	-	20.5	327.7	2.9	458.7	-8.7	2.2
Ghana	B+ Stable	- -	B+ Positive	- -	B Stable	-8.0	-	35.3	120.0	3.3	219.3	-9.8	-
Ivory Coast	- -	- -	- -	- -	CCC Stable	-3.4	-	47.6	97.4	4.2	339.0	6.9	-
Libya	- -	- -	- -	- -	BB Stable	31.4	4.3	8.9	11.4	2.8	5.6	16.8	2.4
Mauritania	- -	- -	- -	- -	- -	-2.3	105.9	78.9	123.4	4.5	-	-2.6	-
Morocco	BB+ Positive	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-1.8	54.3	22.2	115.7	7.9	63.3	1.0	4.0
Nigeria	BB- Stable	- -	BB- Stable	- -	BB Stable	-1.2	14.4	4.2	8.6	0.5	-	9.6	1.2
Sudan	- -	- -	- -	- -	CC Negative	-3.1	83.6	51.3	205.9	2.1	-	-5.6	3.8
Tunisia	BBB Stable	Baa2 -	BBB Stable	BBB Stable	BBB Stable	-1.5	49.1	52.7	90.5	12.3	232.1	-1.9	2.8
Middle East													
Bahrain	A Stable	A2 -	A Stable	A- Stable	A Stable	8.3	25.6	112.1	140.2	5.1	680.5	12.6	10.5
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	-9.3	22.7	4.4	16.5	2.8	19.2	7.7	2.4
Iraq	- -	- -	- -	- -	C Positive	26.5	-	90.6	137.1	2.9	267.8	18.2	-
Jordan	BB Stable	Ba2 -	- -	BB Stable	B Stable	-4.6	72.6	87.6	237.8	6.1	220.6	-13.2	11.5
Kuwait	AA- Stable	Aa2 -	AA- Stable	AA- Stable	A Stable	33.0	6.9	15.2	3.1	3.5	83.2	47.9	-7.3
Lebanon	B- Negative	B3 -	B- Stable	B- Negative	CCC Stable	-13.2	176.1	100.0	767.3	22.8	255.8	-11.2	5.1
Oman	A Stable	A2 -	- -	A- Stable	A Stable	10.4	5.6	11.4	20.5	5.9	79.6	13.6	2.0
Qatar	AA- Stable	Aa2 -	- -	A+ Stable	A Stable	12.0	11.4	59.3	104.0	11.0	565.3	35.8	2.2
Saudi Arabia	AA- Stable	A1 -	A+ Positive	A+ Stable	A Stable	17.6	3.8	7.8	15.2	2.0	154.9	29.3	0.2
Syria	- -	- -	- -	- -	CCC Stable	-5.5	40.3	13.7	39.8	3.2	100.7	2.2	1.6
UAE	- -	Aa2 -	- -	AA- Stable	A Stable	28.5	11.8	55.6	64.5	2.5	303.9	20.9	1.8
Yemen	- -	- -	- -	B- Stable	B Stable	-5.2	-	25.8	97.0	3.1	80.6	-3.9	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Central & Eastern Europe													
Armenia	-	Ba2	BB-	-	-								
	-	-	Positive	-	-	-2.4	14.6	22.2	227.3	2.6	126.2	-4.0	2.8
Bulgaria	BBB+	Baa3	BBB	-	BBB								
	Stable	-	Stable	-	Stable	3.1	16.2	106.9	174.3	18.1	299.8	-19.3	13.7
Kazakhstan	BBB-	Baa2	BBB	-	BB								
	Stable	-	Stable	-	Stable	3.4	4.6	88.9	201.9	48.5	578.4	-5.0	5.6
Romania	BBB-	Baa3	BBB	BBB-	BB								
	Stable	-	Stable	Stable	Stable	-3.4	12.8	45.3	193.5	24.0	238.0	-15.6	6.4
Russia	BBB+	Baa2	BBB+	-	BBB								
	Stable	-	Stable	-	Stable	3.5	5.3	29.4	112.5	17.1	82.4	3.7	0.9
Turkey	BB-	Ba3	BB-	BB-	B								
	Stable	-	Stable	Stable	Stable	-0.7	50.2	44.5	200.2	37.5	249.5	-5.2	3.1
Ukraine	BB-	B1	BB-	-	BB								
	Negative	-	Positive	-	Stable	-2.5	14.5	48.4	143.3	16.4	193.4	-4.4	3.8

Sources: Moody's Investors Service; EIU - The above figures are estimated for 2008

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	3.00	30-Jan-08	Cut 50 bps	18-Mar-08
Eurozone	Refi Rate	4.00	10-Jan-08	No change	07-Feb-08
UK	Base Rate	5.50	10-Jan-08	No change	07-Feb-08
Japan	O/N Call Rate	0.50	22-Jan-08	No change	15-Feb-08
Australia	Cash Rate	6.75	04-Dec-07	No change	05-Feb-08
New Zealand	Cash Rate	8.25	23-Jan -08	No change	05-Mar-08
Switzerland	3 month Libor target	2.75	13-Dec-07	No change	13-Mar-08
Emerging Markets					
China	One-year lending rate	7.47	20-Dec-07	Raise 18bps	N/A
Hong Kong	Base Rate	5.00	23-Jan-08	Cut 75bps	N/A
Taiwan	Discount Rate	3.38	20-Dec-07	Raise 12.5bps	End Mar-08
South Korea	O/N Call Rate	5.00	10-Jan-08	No change	13-Feb-08
Malaysia	O/N Policy Rate	3.50	29-Jan-08	No change	25-Feb-08
Thailand	1D Repo	3.25	16-Jan-08	No change	27-Feb-08
India	Reverse repo rate	6.00	29-Jan-08	No change	29-Apr-08
UAE	Overnight repo rate	3.50	23-Jan -08	Cut 75 bps	31-Jan-08
Saudi Arabia	Repo rate	5.50	30-Jan-08	No change	N/A
Egypt	overnight lending	10.75	Oct-07	No change	N/A
Turkey	Base Rate	15.50	18-Jan -08	Cut 25bps	14-Feb-08
South Africa	Repo rate	11.00	31-Jan-08	No change	10-Apr-08
Kenya	Central Bank Rate	8.75	07-Dec-07	No change	Feb 08
Nigeria	Monetary Policy Rate	9.50	04-Dec-07	Raise 50bps	Feb 08
Ghana	Prime Rate	13.50	29-Jan-08	No change	Mar 08
Mexico	Target Rate	7.50	18-Jan-08	No change	15-Feb-08
Brazil	Selic Rate	11.25	23-Jan-08	No change	05-Mar-08
Armenia	Repo Rate	5.75	N/A	N/A	N/A
Romania	Policy Rate	9.00	Feb-08	Cut 100bps	N/A
Bulgaria	Overdraft rate	8.40	N/A	N/A	N/A
Kazakhstan	Reverse repo rate	9.00	Oct-07	N/A	N/A

Source: Standard Chartered - Countries in bold updated on February 7, 2008

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