Issue 98
January 8, 2009

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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Remittance flows to drop by 6% to $267bn in 2009 with worsening crisis

The World Bank estimated remittance flows to developing countries to reach $283bn in 2008, constituting an increase of 6.7% from $265bn in 2007, but declining to 1.8% of GDP in 2008 from 2% of GDP in 2007. It said that after several years of strong growth, remittance flows to developing countries began to slow down significantly in the third quarter of 2008 due to the deepening global financial crisis. The World Bank expected remittances to decline by 1% to $280bn in 2009 and to rise by 6.1% to $297bn in 2010 in a best case scenario, while it projected remittance flows to contract by 5.7% to $267bn in 2009 and to rise by 1.2% in 2010 in a worst case scenario. Similarly, remittances would reach 1.6% of GDP in 2009 and 1.5% of GDP in 2010 in a base case scenario, and 1.5% of GDP and 1.4% of GDP in 2010 in a worst case scenario. It said the outlook for remittance flows to developing countries in 2009 and 2010 is uncertain due to the economic slowdown in the high income OECD destination countries such as the United States and Western Europe, the impact of the financial crisis on developing countries, the impact of a fall in oil prices on the economies of the GCC countries, and uncertainty about exchange rates.

Source: World Bank

GCC

Free trade talks with EU suspended

The Gulf Cooperation Council suspended talks with the European Union for a free trade agreement, halting more than two decades of negotiations between the two regional economic blocs to sign the world's first region-to-region free trade deal. The EU-GCC framework was initiated in 1988 and came into effect in 1990, but was dormant during the following decade. The negotiations restarted in 2003 following the implementation of the GCC customs union. The GCC's Secretary General blamed the EU for imposing high taxes on Gulf exports and criticized the EU's determination to link the free trade agreement to political issues such as human rights and counter terrorism. He added that the EU needed to pay more attention to strategic domains like energy, investment and mutual trade between the GCC states and the European Union, as well as cooperation between the two sides to boost regional security in the region.

Source: AFP, Khaleej Times

Income tax to be imposed by 2012

The six GCC countries agreed in principal to impose corporate and individual income tax by 2012 and will try to bring the deadline closer. The introduction of taxation and VAT has been discussed for many years, but the sharp fall in oil prices recently has raised the urgency of the subject, as all the GCC counties have a substantial non-oil deficit. The introduction of VAT or direct taxation would diversify government revenues, although it will still be a relatively small source of income relative to hydrocarbons. The introduction of taxation is unlikely in the short-term, as GCC countries do not have the mechanism in place to administer a tax regime at present and the system will need to be harmonized across the region.

Source: Emirates Business

UAE

Abu Dhabi establishes new accountability authority

Abu Dhabi announced the creation of a new institution to increase oversight of its state-owned companies. The new institution, the Abu Dhabi Accountability Authority, will replace the Abu Dhabi Audit Authority. The new authority will monitor companies in which the government owns a stake of at least 50% and will be under the control of Abu Dhabi's Crown Prince. The main goal of the new authority is to increase transparency and accountability in government-owned companies. The Abu Dhabi Accountability Authority will also aim to ensure the accuracy of financial statements and will seek to ensure that the management, collection, and disbursement of funds is transparent and efficient. The new authority will be able to audit and approve annual budgets.

Source: WAM, Gulf News

QATAR

Sovereign wealth fund acquires stakes in local banks

The extraordinary general assembly of Al Rayan Bank approved the allocation of 150 million shares, or 20% of the bank's capital to the Qatar Investment Authority (QIA), while Ahli Bank's extraordinary general assembly approved selling a stake of between 10% and 20%, or between 6 million and 12 million shares, to the QIA for a participation period of two years. Last October, the QIA, the state's sovereign wealth fund, announced that it will buy between 10% and 20% of listed banks' capital to boost confidence in the market, and that the transactions would take place through private placements.

Source: Gulf Times, Dow Jones Newswires

IRAN

U.S. blacklists New York firm as Iranian bank's 'front' company

The U.S. Department of the Treasury designated New York-based Assa Corp. as a "front company" of Iran's state-owned Bank Melli and moved to seize its assets. It said that Assa Corp. funneled funds to Bank Melli, which is branded by Washington and the European Union as a "proliferator" linked to Iran's nuclear and ballistic missile programs. The U.S. Treasury said Bank Melli set up Assa Corp. as a front company to funnel money from the United States to Iran. The U.S. has previously blacklisted the bank for providing financial services, including opening letters of credit and maintaining accounts, for Iranian front companies and entities engaged in proliferation activities.

Source: Associated Press

POLITICAL RISK OVERVIEW - DECEMBER 2008

ARMENIA

The Parliamentary Assembly of the Council of Europe (PACE) Monitoring Mission criticized on December 18 the slow progress of investigations of the March post-election violence and threatened to lift Armenian PACE voting rights. The trial of 7 opposition members accused of initiating March violence, including ex-Foreign Minister Arzumanyan, started on December 19th. President Sarkisian and Russian Gazprom chief Miller inaugurated a gas pipeline from Iran on December 1st.

EGYPT

Three senior Muslim brotherhood (MB) members were arrested on December 17 for forming a "jihad group" linked to Hamas. Over 50,000 people demonstrated across Egypt over the Israeli airstrike on Gaza, urging the government to open the Rafah border crossing. Some 40 MB members and at least one journalist were arrested. Clashes between Hamas supporters and Egyptian border guards left 2 people dead. President Mubarak rejected calls to open the Rafah border crossing.

IRAN

The five permanent members of the U.N. Security Council and Germany agreed with Arab diplomats from Bahrain, Egypt, Jordan, Kuwait, Iraq, UAE and Saudi Arabia to consult regularly on Iran's nuclear program. U.S. President-elect Barack Obama vowed "tough but direct diplomacy" with Iran. Iran rejected the president-elect's "carrot and stick" strategy. Iran condemned the Israeli assault on Gaza. Many demonstrators in Tehran protested Egypt's refusal to open the Rafah border crossing. The militant Sunni group Jundallah carried out a suicide attack killing 4 people in Saravan on December 29th. President Ahmadi-Nejad presented a controversial plan to the parliament on December 31 to cut energy subsidies.

IRAQ

The new U.S.-Iraq security pact that was approved by Iraqi lawmakers on November 27 was ratified by Iraq's Presidency Council on December 4th. The security pact consists of a strategic framework agreement that establishes the foundation of a long-term bilateral relationship between the U.S. and Iraq, as well as a status-of-forces agreement that stipulates how U.S. forces are affected by Iraqi laws. Both agreements took effect on January 1st. The agreements replace a UN mandate authorizing the U.S. military presence in Iraq. The Government signed a deal on December 31 allowing the remaining UK and Australia's troops to stay until July 2009. Radical Shiite cleric Muqtada al-Sadr issued a statement condemning Israeli assault on Gaza. Suicide attacks continued killing more than 100 people. Turkey continued strikes targeting Kurdish rebels in northern Iraq.

UKRAINE

Ukraine political tensions cooled as leaders of the new coalition government called off early elections. Russia's Gazprom cut off all natural gas supplies to Ukraine on January 1 after the two sides failed to agree on how much Ukraine would pay in 2009. However, Russia continued full shipments to the European Union through pipelines that cross Ukraine. Russia accused Ukraine of stealing gas intended for Europe after several European countries reported shortage

SUDAN

Political tensions continued to increase as the decision of the indictment of Sudanese president Omer Hassan Al-Bashir by the International Criminal Court (ICC) approaches. President Bashirs' potential condemnation of genocide and war crimes is expected in January 2009. The Justice and Equality Movement (JEM) sent a delegation to Qatar to hold more talks on a peace intervention that the Arab Gulf country seeks to sponsor. However, no final stance was taken over this initiative. Meanwhile, Ethnic clashes continued in Sudan, and the tension between the JEM and the government continued to increase, and several attacks have been reported in the country. For that reason, additional UNAMID troops have been called in but are currently facing security problems. In parallel, the renewal of disputes in the Abyei district that involved police and soldiers from joint unit of former foes from North and South, led the government to move its forces from the district. The reasons for these clashes will be investigated in the Abyei Arbitration Tribunal that is agreed to be held in June 2009.

SYRIA

Events in Gaza overshadowed reports of improving relations between Damascus and the West. Thousands of Palestinian refugees protested against the Israeli assault and the Egyptian closure of the Rafah crossing. President Assad condemned Israeli actions. Damascus suspended Turkish-mediated indirect negotiations with Israel on December 28 as Turkish Prime Minister Erdogan also criticized Israel. Former U.S. President Carter in visit to Lebanon and Syria met with President Assad in Damascus on December 13th. The International Atomic Energy Agency said on December 21 it was still waiting for information from both Israel and Syria regarding the Al Kibar nuclear site bombed by Israel in September 2007.

TURKEY

The government refused to sign an online apology petition for the Armenians, concerning the 1915 genocide. This petition was launched by more than 200 Turkish intellectuals. Turkey detained 30 al Qaeda members on December 17, suspected to have carried out several bomb attacks. Meanwhile, tension continues to increase with the PKK party as the prominent Kurdish rights activist and former lawmaker Leyla Zana was sentenced for 10 years of jail. Bombing continued in Istanbul leading to the injury of 6 people at the headquarters of the Turkish ruling Justice and Development Party (AKP). A terrorist attack targeted a military vehicle in Cizre district on December 24, killing 3 soldiers and injuring 17 people. As a result, Turkish warplanes bombed Kurdish guerrilla targets in northern Iraq. Turkey launched on January 1st its first 24-hour television station broadcasting entirely in the once-banned Kurdish language.

KAZAKHSTAN

Around 400 demonstrators clashed with the security forces on December 16, protesting the housing crisis and calling for the resignation of the regional authorities. The Senate ratified two agreements allowing U.S. and NATO coalition forces to use Almaty airport as an emergency airfield for fighter planes flying on missions to Afghanistan.

Source: International Crisis Group

OUTLOOK

ARMENIA

Banking system largely unharmed by credit crisis, declining asset quality and economic slowdown are potential challenges

Moody's Investors Service indicated that banks in Armenia have not been exposed to U.S. sub-prime risk, failed Western banks or other international risky asset classes, and were able to weather the international credit crisis relatively unharmed in 2007 and 2008. It noted, however, that local banks remain reliant on international institutional funding to finance domestic lending and faced increasing spreads for the little funding they could access since the start of market turmoil. The agency considered that favorable macroeconomic conditions in recent years have supported the gradual development of the sector, while low banking penetration offers opportunities for growth, particularly in the retail and small- and medium-size enterprises segments. It added that low competition and still wide interest spreads support the sector's profitability, while strict requirements by the Central Bank of Armenia maintain bank liquidity at high levels.

The agency expressed concerns over potentially rising asset quality problems from the projected slowdown of the domestic economy and, as importantly, of the economies of Armenia's main trading partners during 2009. It noted the unseasoned nature of loan portfolios and the potential for accelerated deterioration under less favorable market conditions, as well as borrowers' potentially unhedged foreign currency positions translating into currency-induced credit risk for banks. Moody's said the sector benefits from high levels of aggregate capitalization and high but declining liquidity, both of which are shields against deteriorating market conditions. It also noted the good prospects for growth for banks with access to capital funds, as the level of financial intermediation remains low and demand for credit is higher than supply. It raised concerns over the potential second-round effect of the global credit crunch, as pressures may intensify the need for the sector's consolidation.

Source: Moody's Investors Service

SUDAN

Non-oil growth at 10% in 2008, deeper financial intermediation needed for sustained growth

The International Monetary Fund projected economic growth in Sudan at 8.5% and non-oil GDP growth at 10% in 2008 adding that the services sector has become the engine of growth in the country. It indicated that the fiscal position has improved due to higher oil revenues and better expenditure controls, and expected the fiscal deficit to decline to 2.8% of GDP in 2008 from 3.1% of GDP in 2007. It also expected inflation to average 16% in 2008. The Fund noted that monetary growth is recovering due to the clearance of domestic arrears accumulated in 2007, which were the main source of slowdown in private sector credit and other monetary aggregates. It projected reserve money and broad money to increase by 21% and 20%, respectively, in 2008, adding that credit to the private sector remains weak due to lower demand and the time lag of arrears clearance on the economy.

The Fund forecast Bank of Sudan's net foreign reserves at \$2.1bn at end-2008, equivalent to 1.9 months of imports of goods and services, due to higher oil prices and exchange rate flexibility. It noted that the Sudanese pound has depreciated by about 7% against the US dollar and 20% vis-à-vis the euro since September 2007, and recommended greater exchange rate flexibility to safeguard the economy from external shocks and to protect reserves. The IMF warned that Sudan continues to face large and complex challenges, which are exacerbated by the prospect of declining oil revenues and the global economic slowdown. It urged authorities to maintain prudent macroeconomic policies and to accelerate fiscal and financial sector reforms to strike the right balance between lowering inflation and sustaining growth. It encouraged efforts to improve the non-oil primary fiscal balance, including through an increase in non-oil revenues and restraint on non-priority spending. The Fund noted that sustained economic growth and improved monetary control will require deeper financial intermediation, and expressed concern about financial sector vulnerabilities.

Source: International Monetary Fund

JORDAN

Growth to slow to 3.5% in 2009, current account deficit is key risk

Standard Chartered Bank expected Jordan's economy to grow by 3.5% in 2009, down from 5.2% in 2008 and from an average annual growth of more than 6% in the 2004-07 period, adding that the global crisis has shifted the government's focus from inflation to growth. It said the global financial crisis will impact the three key sectors of exports, investments and tourism, while the current account deficit remains the main concern. It indicated that foreign direct investment has been one of the key drivers of growth and the second largest contributor to GDP after consumption, but with credit conditions becoming tighter and risk appetite falling, investment is likely to drop. It added that tourism will be one of the sectors particularly vulnerable to the weakening global economy in 2009, while exports will come under significant pressure. It noted that Jordan's largest export partner is the United States with 25% of total exports, adding that with the U.S. economy contracting this year, exports to the US will regress. Also, as global consumption falls, demand for clothes that account for 17% of Jordan's total exports, will also drop.

Standard Chartered expressed concerns about Jordan's current account deficit and expected it to widen from 17.4% of GDP in 2007 to 26% of GDP in 2008, but to ease to 19% of GDP in 2009 given that over 20% of the import bill is from oil and Jordan is the 23rd largest importer of wheat in the world. It noted that remittances may slow due to a global slowdown, but they will likely remain relatively strong. It considered that the government's projection of a budget deficit of 4.6% of GDP in 2009 seems too optimistic and is likely to remain at the 2008 level of 5.5% of GDP given that spending has increased and the economy will slow. It noted that Jordan has relied on grants and loans from multilateral institutions in the past and will probably do so again.

Source: Standard Chartered

SYRIA

Stock market to open on February 23rd

The Damascus Securities Exchange (DSE) announced that official trading on the bourse will start on February 23, 2009. The DSE said experimental trading will begin on January 29, with trading taking place two to three days a week initially in order to give investors more confidence and transparency in the conduct of operations. Banque BEMO Saudi Fransi, International Bank for Trade & Finance and Arab Bank Syria received preliminary approval from the board of the DSE to have their shares listed on the exchange. According to the DSE, 13 Syrian companies are currently authorized to have their shares listed, including 5 of the 9 private banks in the market, 3 insurance firms and Syriatel. The bourse's opening has been repeatedly postponed, as it was supposed to open in 2007 and then in the first quarter of 2008. The DSE recently awarded a contract for the supply of electronic trading equipment, while the bourse's board granted the first applications for listing and for brokerage services in the past few weeks.

Source: Syria Report

EGYPT

Ratings affirmed despite weakening external demand

Standard & Poor's affirmed its 'BB+/B' foreign currency and 'BBB-/A-3' local currency sovereign credit ratings on Egypt, with a 'stable' outlook. It considered that the sharp deterioration in external demand poses the principal threat to Egypt's creditworthiness. The agency expects economic growth to fall to around 5.5% in fiscal year 2009 and 4.4% in 2010 from an average of 7% in the past three years, due to a slowdown in tourist arrivals, static workers' remittances and weakening demand for manufacturing exports. It added that slower growth will put pressure on public finances and result in a widening of the fiscal deficit to 7.9% of GDP in FY2009. S&P also expected Egypt's external position to weaken, with the current account posting a deficit of 2% of GDP in FY2009 and widening to 3.4% in FY2010 after years of surpluses, while FDI will likely decline from 8% of GDP in FY2008. It said Egypt is well placed to weather external shocks due to its program of fiscal reform, banking sector consolidation and privatization, as well as the Central Bank's overhaul of monetary policy. S&P said the ratings could come under pressure if fiscal discipline and commitment to reform weaken in the face of the slowdown in external demand, as well as in case of a disorderly presidential succession.

Source: Standard & Poor's

BAHRAIN

Outlook changed to 'negative' from 'stable'

Moody's Investors Service changed the outlook on Bahrain's 'A2' local and foreign currency sovereign ratings to 'negative' from 'stable'. It attributed the change to the steep decline in global oil prices to levels well below Bahrain's fiscal break even point of $75 per barrel. It said the country has limited reserves of liquid financial assets that can be tapped to finance fiscal deficits and ease adjustment compared to similarly-rated oil exporters. Also, Bahrain may not have the resilience to absorb the price shock and avoid impairment to its credit fundamentals relative to global rating peers. The agency noted that, despite progress towards economic diversification, Bahrain's fiscal and external current accounts remain heavily dependent on oil export receipts. It also cautioned that the global and regional economic downturn is likely to have a significant effect on Bahrain's non-hydrocarbon sectors as well.

Source: Moody's Investors Service

UAE

Ratings resistant to drop in oil prices

Moody's Investors Service indicated that the very high ratings of the UAE's federal government are resistant to the steep fall in international oil prices since July 2008, The UAE has long-term foreign and local currency issuer ratings of 'Aa2' with a stable outlook. The agency said the core assumption that underpins ratings is that the federal government is fully supported by the government of Abu Dhabi, which also has an 'Aa2' rating. Moody's believes that Abu Dhabi's public finances are very robust and can withstand the recent drop in international oil prices, adding that Abu Dhabi's fiscal breakeven is at around $30 per barrel. It said that even if oil prices were to fall below $30 per barrel, the Abu Dhabi government has recourse to a large stock of offshore financial assets, which are worth more than twice the value of the emirate's projected 2008 GDP or more than $280bn. It estimated that the vulnerability of the federal government's finances to economic and financial shocks would be felt mainly through its domestic contingent liabilities, which are considered to be extensive. However, they are still rather moderate relative to the size of the Abu Dhabi government's financial assets.

Source: Moody's Investors Service

YEMEN

Sovereign rating upgraded

Capital Intelligence raised Yemen's long-term foreign currency rating to 'B' from 'B-' and affirmed its long-term local currency rating at 'B'. It attributed the upgrade to the significant decrease in government external debt ratios in recent years, the country's light external debt, as well as to the accumulation of foreign reserves to levels that provide a comfortable cushion to deal with temporary shocks. The agency considered that the direct impact of the global financial turmoil on Yemen to be small, given the country's limited exposure to foreign banks and capital markets and its modest external financing needs relative to foreign reserves. It said foreign reserves reached $8bn at end-2008, nearly $2bn higher than the stock of public external debt and 13 times as high as external debt maturing in 2009. It noted that lower oil prices will slow economic growth and increase the fiscal and current account deficits, and projected a budget deficit of 10% of GDP in 2009, declining to 7.9% of GDP in 2010, and a current account deficit of 4% of GDP, narrowing to 1% of GDP in 2010. Capital Intelligence warned that failure to substantially reduce the budget deficit beyond 2010 could lead to the emergence of funding problems and recourse to potentially destabilizing monetization of the deficit. It added that Yemen's capacity to sustain higher debt ratios is constrained by the small size of its underdeveloped financial system and limited access to external financing.

Source: Capital Intelligence

BANKING

GCC

Monetary Union deal signed

Leaders of the Gulf Cooperation Council states approved the Monetary Union Agreement, which is the first legal agreement on the formation of a single GCC currency and on its framework. Oman has previously announced that it will not take part in the union. The agreement stipulates the formation of a new body, the Monetary Council, which would serve as a forerunner to a common central bank. The accord must next be endorsed by the GCC's local legislative bodies and should go into effect by December 12, 2009. The Monetary Council is expected to start functioning once the agreement is ratified and will not have monetary policy decision-making power in its initial stages. Also, the five countries said they would abide by a 2010 monetary union target, even though the target may be difficult to reach given the level of harmonization that has to take place regarding policy and tools.

Source: Bloomberg, EFG Hermes

UAE

Rating actions taken on Dubai banks due to deteriorating economic outlook

Standard & Poor's lowered its long- and short-term counterparty credit ratings on Dubai Islamic Bank to 'A-/A-2' from 'A/A-1' and revised its outlook on the bank to 'negative' from 'stable'. It also revised its outlook on Emirates Bank International and National Bank of Dubai to 'negative' from 'stable', and on Sharjah Islamic Bank to 'stable' from 'positive'. It affirmed the counterparty credit ratings of the three banks as well as that of Mashreqbank. The agency attributed the rating actions to the impact of the difficult global macroeconomic and financing environment on the Emirate of Dubai. It plunging oil prices, an economic slowdown, the falling stock market, and pressure on real estate prices are raising major hurdles for Dubai-based banks. It noted that these factors are expected to lead to a major slowdown in business growth and deterioration in asset quality and profitability at a time when liquidity has also deteriorated rapidly.

Source: Standard & Poor's

Central Bank provides swap facility to ease liquidity

The UAE Central Bank announced it would provide a new swap facility to help ease liquidity in the market, with the Central Bank buying US dollars against the dirham (spot) and selling US dollar against the dirham (forward) for one week, as well as for one-, two-, three-, six-, nine- and 12-month tenors. It added that each bank can borrow up to the equivalent of $200m per day under the facility while the overall limit for Islamic banks is the equivalent of $1bn. The new measure is part of ongoing efforts to ease liquidity in the market, as three-month EIBOR are still relatively high compared to three-month SAIBOR and US dollar LIBOR that have declined significantly over the past month, exerting some downward pressure on inter-bank rates. The Central Bank said the facility aims to help banks to meet their foreign currency requirements in view of the current credit crisis in international financial markets.

Source: Standard Chartered

SYRIA

AMF extends $45m for banking reforms

The Arab Monetary Fund (AMF) extended to the Central Bank of Syria a loan of $45m to support the structural reform of Syria's banking and financial sectors. The loan will be drawn in two equal payments. Each payment will have a two-year grace period and will be repaid in four years. This constitutes the second loan by the AMF to support financial reforms in Syria. In March 2007, The Fund extended $52m to the Ministry of Finance to support the launch of a Treasury bills market.

Source: Syria Report

UKRAINE

Banks' rating outlooks changed to 'negative' on currency depreciation

Moody's Investors Service changed to 'negative' from' stable' the outlook on the bank financial strength ratings (BFSRs) of 15 Ukrainian banks, and changed the outlook to 'negative' from 'stable' on the long-term global local currency or foreign currency deposit or debt ratings of 19 banks. The agency attributed the change in outlook to the substantial increase in credit and liquidity risk for Ukrainian banks due to the steep depreciation of the Ukrainian hryvna over the past few months. It said the hryvna depreciation has led to a serious rise in the banks' vulnerability to credit risk, since about 53% of loans extended by rated Ukrainian banks and nearly 47% of their liabilities are denominated in foreign currencies. Moody's considered that the significant weakening of the hryvna will materially impact borrowers' ability to repay their foreign currency loans, leading to a substantial increase in non-performing loans and loan-loss provisioning charges by Ukrainian banks, thus materially worsening their asset quality, profitability and capital adequacy indicators in 2009. In addition, the agency noted that the hryvna's depreciation has significantly increased the direct foreign currency debt burden of Ukrainian banks.

Source: Moody's Investors Service

RUSSIA

Banking industry country risk assessment revised downward on increasing risks

Standard & Poor's revised downward its Banking Industry Country Risk Assessment (BICRA) on Russia to Group 8 from Group 7. It also affirmed its estimate of the incidence of gross problematic assets in the Russian financial system at 35%-50% in an economic recession. The agency said the revision of the BICRA grouping for the Russian banking system reflects increased economic and sector-specific risks, primarily funding, liquidity and credit risks, as well as the deteriorating financial and operating environment for the banks, and the system's high vulnerability to the ongoing global financial market turmoil. It said weaker macroeconomic indicators in 2009 will add to the acceleration of these risks, as output stagnates, inflation remains high, reserves decline and the ruble continues to weaken. S&P noted that growth opportunities for the Russian banking sector will be severely limited over the next 12-18 months, in light of the additional strain on banks' financial performance and credit standing.

Source: Standard & Poor's

Oil rises as Lebanon rockets hit Israel, widening Gaza conflict

Crude oil rose, rebounding from its biggest decline in seven years, after rockets fired from Lebanon hit Israel, raising concern the widening Gaza conflict will threaten Middle East oil supplies. Venezuela cut oil sales and Angola asked operators like Total to trim production in accordance with last month's OPEC decision, following similar notices from other members including Kuwait and the UAE. Crude plunged the most since 2001 on January 7, as U.S. stockpiles increased more than expected. Crude oil for February delivery climbed as much as 85 cents, or 2%, to $43.48 a barrel on the New York Mercantile Exchange on January 8th. Futures dropped $5.95 to $42.63 a barrel on January 7, the lowest settlement since December 30th. Futures on the exchange are down 56% from a year ago.

In Nigeria, Royal Dutch Shell Plc resumed contracted deliveries of its Bonny, Bonga and Forcados crude grades after production was reduced by pipeline attacks and OPEC cuts. Brent crude oil for February settlement was at $46.82 a barrel, up 96 cents, on London's ICE Futures Europe exchange. U.S. inventories of crude oil rose 6.68 million barrels to 325.4 million barrels last week, the highest since May. U.S. fuel consumption during the four weeks ended January 2 averaged 20.1 million barrels a day, down 2.9% from a year earlier. Venezuelan crude sales to the U.S. were lowered by 166,000 barrels a day, the country's Energy and Oil Ministry said in a statement. Sales to China were reduced by 18,000 barrels a day and to Europe by 5,000 barrels a day. The Organization of Petroleum Exporting Countries agreed on a record 14% supply cut on December 17 in response to collapsing demand.
Source: Bloomberg

Exporters create gas producers club

Energy ministers from some of the world's biggest exporters of natural gas have agreed to create a producers' group that will coordinate forecasts, investments and relations to make the gas market more predictable. The 15-member Gas Exporting Countries Forum will locate the headquarters of its new secretariat in Doha. This new group could not affect the short term prices of gas, however it will drive up gas prices over the medium term. The group would therefore work to prevent gas oversupply that would put pressure on gas prices.
Source: AFP

Kuwait cancels $17bn deal with Dow Chemical

The Kuwait Supreme Petroleum Council decided to cancel a deal to form a $17.4bn petrochemical joint venture with the U.S. company Dow Chemical as some Kuwaiti parliamentarians said that the project was not economically viable in light of the global financial crisis and falling petrochemical sales. State-run Petrochemical Industries Co (PIC) signed a deal in 2008 with Dow to launch the 50-50 joint venture, K-Dow Petrochemicals, and was due to pay $7.5bn. The deal was part of Dow's strategy to reduce its exposure to the cyclical nature of the commodity chemicals business. The new company had been due to market petrochemicals and plastics used in products ranging from plastic bottles and compact disks to computers and agricultural compounds.
Source: Reuters

Base metals: more weakness near term

The outlook for the base metals complex in the first half of 2009 remains very weak, and further price weakness is expected for aluminium, copper, nickel and, to a lesser extent, zinc. While the market should start stabilizing in the second half of 2009, a swift or sharp rebound in prices is not expected unless the global credit markets recover. Surpluses will continue to build as demand keeps on falling, particularly in the case of aluminium and copper.

Banks are cutting credit to businesses aggressively everywhere in the world. This means metals consumers cannot get the required financing for their purchases. In turn, producers now want a larger upfront payment to deliver raw materials. Also, metal consumers are trying to bring down their stocks and to reduce their working capital requirements. Thus, trading in base and ferrous metals has slowed rapidly. The shock to the real economy from tighter credit is expected to extend into the end of the second quarter of the year.

Producers are now cutting back aggressively in response to the lower prices. Strong cuts are expected for aluminium, nickel, zinc and even copper during 2009. However, producers are expected to keep supply afloat, despite negative margins, in order to sustain distribution networks. Therefore, marginal costs will only provide a soft floor to prices during the economic downturn, and metals demand growth is expected to undershoot supply growth in the coming 6-12 months.
Source: Standard Chartered

Precious metals: Platinum gains for sixth day on demand, gold little changed

Platinum gained for a sixth day on speculation that plans to strengthen the U.S. economy will support metal demand. Platinum, used in vehicle pollution-control devices, jumped on January 7 above $1,000 an ounce for the first time in 12 weeks. U.S. President-elect Barack Obama has proposed a $775bn stimulus. The Treasury has pledged $13.4bn to help General Motors Corp. pay bills and $6bn for lender GMAC LLC. Immediate-delivery platinum gained as much as 1.5% to $988 an ounce and was at $983.50. The metal reached $1,005.50 on January 7, the highest since October 15th. Palladium for immediate delivery was down 1.1% at $194.75 an ounce. Gold for immediate delivery gained 0.4% to $846.14 an after earlier falling as much as 0.7%. Silver for immediate delivery declined 0.4% to $10.9975 an ounce after falling 3.8% on January 7th.
Source: Bloomberg

Commodities price developments	End Q1:09	End Q1:10	12m ave	yoy%
Economist commodity price index			230.4	-30.4
LME metals price index			3438.7	-49.7
Oil prices USD	50-60	70-80	101.5	-59.5
Oil prices SDRs			64.3	-59.6
Gold $/troy oz	750-850	950-1,050	870.7	6.1
Silver cents/troy oz	10-11	13-14	1511.2	-19.2
Platinum $/troy oz	800-900	1,100-1,200	1593.9	-42.9
Copper $/MT	3,000-3,200	3,600-3,800	7070.3	-54.0
Nickel $/MT	9,000-10,000	9,500-10,500	21619.8	-63.2
Aluminium $/MT	1,450-1,550	1,650-1,750	2597.1	-39.3
Zinc $/MT	1,050-1,150	1,150-1,250	1913.3	-53.1

Source: Credit Suisse

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	- -	- -	- -	- -	BBB Stable	13.9	15.1	2.3	4.0	2.3	2.7	14.4	0.7
Angola	- -	- -	- -	- -	BB Stable	10.7	8.6	13.9	14.8	4.0	41.2	47.5	3.1
Egypt	BB+ Stable	Ba1 -	BB+ Stable	BBB- Stable	BB Stable	-7.0	84.5	20.9	53.4	4.0	98.9	1.3	6.0
Ethiopia	-	-	-	-	B Stable	-4.4	-	13.6	217.5	2.9	458.7	-6.6	2.2
Ghana	B+ Stable	- -	B+ Stable	- -	B Stable	-10.5	-	38.0	1.0	3.3	219.3	-12.7	-
Ivory Coast	- -	- -	- -	- -	CCC Stable	-3.4	-	47.6	97.4	4.2	339.0	6.9	-
Libya	- -	- -	- -	- -	BBB Stable	34.9	3.3	6.6	7.9	1.6	5.6	55.5	2.4
Mauritania	- -	- -	- -	- -	- -	-2.3	105.9	78.9	123.4	4.5	-	-5.6	-
Morocco	BB+ Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-2.9	54.3	23.9	74.7	7.6	77.4	-1.2	3.4
Nigeria	BB- Stable	- -	BB- Stable	- -	BB Stable	-0.6	11.3	4.6	7.3	0.5	-	10.7	0.9
Sudan	- -	- -	- -	- -	C Stable	-0.8	84.2	49.6	183.9	2.5	-	-3.7	3.1
Tunisia	BBB Stable	Baa2 -	BBB Stable	BBB Stable	BBB Stable	-3.4	53.3	53.6	95.9	11.1	261.8	-2.7	3.5
Middle East													
Bahrain	A Stable	A2 Negative	A Stable	A Stable	A Stable	8.6	17.3	150.1	151.4	3.4	635.0	20.1	0.4
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	-4.2	24.7	6.3	24.0	2.3	19.2	13.4	0.3
Iraq	- -	- -	- -	- -	CC Stable	26.0	-	80.9	94.4	1.3	194.7	29.6	-
Jordan	BB Stable	Ba2 -	- -	BB Stable	B Stable	-6.5	70.9	86.2	143.0	16.2	295.6	-19.9	16.7
Kuwait	AA- Stable	Aa2 -	AA- Stable	AA- Stable	A Stable	28.0	5.5	27.8	39.8	2.4	227.3	48.6	-4.9
Lebanon	B- Stable	B3 Positive	B- Stable	B- Stable	CCC Stable	-9.4	154.6	103.8	545.1	18.6	283.8	-9.9	10.0
Oman	A Stable	A2 -	- -	A Stable	A Stable	21.3	4.7	22.4	28.9	5.9	91.7	14.5	2.1
Qatar	AA- Stable	Aa2 -	- -	AA- Stable	A Stable	8.3	8.3	57.0	77.0	5.2	450.6	38.7	6.6
Saudi Arabia	AA- Stable	A1 -	AA- Stable	AA- Stable	A Stable	25.7	8.8	7.6	10.9	1.8	96.3	33.0	0.2
Syria	- -	- -	- -	- -	CCC Stable	-1.3	30.4	24.8	52.6	2.2	85.0	-0.4	4.2
UAE	- -	Aa2 Stable	- -	AA- Stable	A Stable	32.1	10.4	65.4	71.4	1.8	167.0	25.6	1.6
Yemen	- -	- -	- -	B Stable	B Stable	-1.9	30.4	24.8	66.3	2.2	84.5	-0.9	

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	-	-								
	-	-	Stable	-	-	-1.6	14.1	26.8	288.7	2.6	220.4	-6.8	5.4
Bulgaria	BBB+	Baa3	BBB-	-	BBB								
	Stable	-	Stable	-	Stable	3.2	14.1	100.2	141.2	15.7	278.5	-21.1	16.2
Kazakhstan	BBB-	Baa2	BBB-	-	BB								
	Negative	-	Stable	-	Stable	3.3	4.9	84.4	149.5	33.8	578.4	-5.0	5.3
Romania	BBB-	Baa3	BB+	BBB-	BB								
	Negative	-	Stable	Negative	Stable	-2.9	13.6	60.2	158.4	17.9	251.2	-16.1	5.4
Russia	BBB	Baa1	BBB+	-	BBB								
	Negative	Stable	Negative	-	Stable	2.8	6.2	33.3	97.4	13.1	92.1	3.0	0.4
Turkey	BB-	Ba3	BB-	BB-	BB								
	Negative	-	Stable	Stable	Stable	-1.9	39.1	35.8	144.6	36.8	408.7	-5.7	2.0
Ukraine	BB-	B1	B+	-	BB								
	Negative	Positive	Negative	-	Stable	-2.5	13.2	60.1	98.2	26.0	263.0	-5.8	5.1

Sources: Moody's Investors Service; Economist Intelligence Unit - The above figures are estimated for 2008
** Figures last updated in September 2008*

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	0.25	16-Dec-08	Cut 75bps	28-Jan-09
Eurozone	Refi Rate	2.50	04-Dec-08	Cut 75bps	15-Jan-09
UK	Base Rate	1.50	08-Jan-09	Cut 50bps	05-Feb-09
Japan	O/N Call Rate	0.10	02-Dec-08	Cut 20bps	21-Jan-09
Australia	Cash Rate	4.25	02-Dec-08	Cut 100bps	03-Feb-09
New Zealand	Cash Rate	5.00	04-Dec-08	Cut 150bps	29-Jan-09
Switzerland	3 month Libor target	0.50	11-Dec-08	Cut 50bps	12-Mar-09
Canada	Overnight rate	1.50	09-Dec-08	Cut 75bps	20-Jan-09
Emerging Markets					
Hong Kong	Base Rate	0.50	17-Dec-08	Cut 100bps	N/A
Taiwan	Discount Rate	2.00	11-Dec-08	Cut75bps	Mar-09
South Korea	Target Rate	3.00	11-Dec-08	Cut 100bps	Jan-09
Malaysia	O/N Policy Rate	3.25	24-Nov-08	Cut 25bps	21-Jan-09
Thailand	1D Repo	2.75	03-Dec-08	Cut 100bps	14-Jan-09
India	Repo rate	6.50	08-Dec-08	Cut 100bps	27-Jan-09
UAE	Overnight repo rate	1.50	Dec-08	No change	N/A
Saudi Arabia	Repo rate	2.50	Dec-08	Cut 50bps	N/A
Egypt	Overnight Deposit	11.50	22-Sep-08	Raise 50bps	N/A
Turkey	Base Rate	15.00	18-Dec-08	Cut 125bps	N/A
South Africa	Repo rate	12.00	11-Dec-08	Cut 50bps	Feb-09
Kenya	Central Bank Rate	8.50	01-Dec-08	Cut 50bps	01-Feb-09
Nigeria	Monetary Policy Rate	9.75	11-Dec-08	No change	Feb-09
Ghana	Prime Rate	17.00	28-Oct-08	No change	Jan-09
Mexico	Target Rate	8.25	28-Nov-08	No change	16-Jan-09
Brazil	Selic Rate	13.75	10-Dec-08	No change	21-Jan-09
Armenia	Refi Rate	7.25	03-Dec-08	Cut 50bps	N/A
Romania	Policy Rate	10.25	01-Aug-08	Raise 25bps	N/A
Bulgaria	Base Interest	5.25	01-Sep-08	No change	N/A
Kazakhstan	Refi Rate	10.50	01-Oct-08	No change	N/A

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