

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 2.7% in June 2012

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.7% at the end of June 2012 up from 2.5% at the end of March, and compared to 1.8% at the end of 2011 and 2.2% at the end of June 2011. It said that a total of 33 rated corporate debt issuers have defaulted so far this year, two of which defaulted in June. The agency forecast the global speculative-grade default rate to increase to 3% by the end of 2012. It noted that the projections are low compared to the historical average of 4.8% since 1983. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 1.7% at end-June, unchanged from the level from the previous quarter and compared to 1.6% at end-2011. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 19.5% at end June 2012, up from 17.2% at end-March and 9.5% a year earlier.

Source: Moody's Investors Service

EMERGING MARKETS

Outlook on bank ratings worsens in second quarter of 2012

Fitch Ratings indicated that it upgraded 16 banks globally in the second quarter of 2012, of which 75% in emerging markets; while it downgraded 45 banks worldwide, of which 26% in emerging economies. It said that there were 57 'negative' outlooks on emerging markets bank ratings in the second quarter of 2012, compared to 37 in the first quarter and 16 in the fourth quarter of last year. In parallel, the number of 'positive' outlooks decreased to 11 in the second quarter of 2012 from 14 in the preceding quarter and from 19 in the fourth quarter of 2011. Also, the number of 'stable' outlooks decreased to 331 in the second quarter from 351 in the preceding quarter, and from 360 in the fourth quarter of 2011. Fitch noted that 79.2% of bank outlooks in emerging markets are 'stable', 13.6% are 'negative' and 2.6% are 'positive'. It noted that 70.1% of outlooks in Emerging Europe are 'stable', 18.1% are 'negative' and 2.1% are 'positive'; while 88.2% of outlooks in the Middle East & Africa are 'stable', 9.4% are 'negative' and 1.2% are 'positive'. Also, it said that 84.8% of outlooks in Emerging Asia are 'stable', 10.5% are 'negative' and 2.9% are 'positive'; while 78.6% of outlooks in Emerging Americas are 'stable' and 14.3% are 'negative'.

Source: Fitch Ratings

MENA

M&A activity down 4% to \$22bn in first half of 2012

Figures released by financial information provider Zawya show that a total of 229 merger & acquisition deals were closed in the Middle East & North Africa region in the first half of 2012, constituting an increase of 24.5% from 173 deals in the same period last year. Also, the aggregate value of M&A deals in the region reached \$22bn in the first half of this year, down 4%

from \$23bn in the same period last year. There were 113 deals in the first quarter of the year with a value of \$7bn, compared to 116 deals in the second quarter of 2012 with a five-year high quarterly value of \$15bn. Egypt led the region with 40 deals, followed by the UAE with 36 deals and Saudi Arabia with 20 transactions. The aggregate value of deals in the UAE totaled \$4.6bn, followed by Egypt with \$4.4bn, Kuwait with \$2.6bn and Iraq with \$1.5bn. The value of domestic deals in the region reached \$11.4bn in the first half of the year through 154 transactions, followed by outbound deals with \$6.3bn through 45 deals and inbound deals with \$4.3bn through 30 deals. In parallel, the most active sectors for M&A deals were financial services with 48 deals, followed by food & beverage with 19 deals, real estate and manufacturing with 18 deals each, and construction with 15 deals. The financial services sector posted \$6.1bn in M&As in the covered period, followed by the telecommunication sector with \$4.6bn through six transactions, and the transportation sector with \$1.4bn in nine deals.

Source: Zawya

FDI in Arab world down 36% to \$41bn in 2011

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Arab economies totaled \$40.6bn in 2011, constituting a decline of 36% from \$63.1bn in 2010. FDI inflows to the 19 Arab countries in the region accounted for 6% of total FDI in developing countries and for 2.7% of global foreign direct investment. Eight Arab countries saw an increase in FDI inflows in 2011, eight posted a decline in inflows and three countries registered FDI outflows last year. Saudi Arabia was the largest recipient of FDI in the region with \$16.4bn and Mauritania the smallest recipient with \$45m, while Yemen posted FDI outflows of \$713m, followed by Egypt with \$483m and Qatar with \$87m. Bahrain posted the highest increase in FDI inflows in 2011 at 401%, followed by Djibouti with 191%, and Morocco with 60%; while Mauritania registered the steepest year-on-year decline of 65%, followed by Syria with 43% and Saudi Arabia with 42%. Also, four Arab countries ranked among the top 50 economies globally in terms of FDI attraction and four others in terms of FDI potential.

Source: UNCTAD, Byblos Research

Maghreb countries to boost intra-regional trade

Algeria, Libya, Mauritania, Morocco and Tunisia agreed on a comprehensive plan to support regional trade through investing in critical infrastructure, creating trade corridors, harmonizing customs procedures, and expanding cross-border logistics and transport services. The agreement paves the way for further economic integration, with the potential of efficiency gains for local producers and the creation of a regional market of more than 90 million consumers. Also, lowering the barriers to trade among Maghreb countries would lay the foundation for future growth by making the region more competitive and more attractive to both domestic and foreign investors.

Source: World Bank

OUTLOOK

EMERGING MARKETS

Economic growth forecast revised downwards on slowdown in BRICs

Citigroup revised downward its real GDP growth for emerging markets (EMs) to 4.9% in 2012 from an earlier forecast of 5.1%, compared to 6% in 2011 and relative to global growth of 2.6% and growth in industrial economies of 1.2% this year. It forecast GDP growth in Emerging Europe at 2.8%, in Emerging Asia at 6.5%, in the Middle East & Africa at 4.1%, and in Latin America at 3.1%. It attributed the change in the forecast mainly to lower growth in Brazil, China and India. It said that the 30 basis points contraction in EMs' GDP growth would affect global demand in the same way as a 50bps decline in U.S. growth. It expected the downward pressure on EM growth, and mainly China's growth, to affect commodity prices.

Further, Citigroup remained cautious about EM growth in the near-term despite expectations of some upside to China's economic activity in the second half of the year, given the Eurozone crisis. It noted that solvency in the Eurozone constitutes the main challenge for policymakers in emerging economies. But it said that low commodity prices raises the prospect of greater flexibility for EM monetary policy, as lower prices will broadly push inflation levels down. It projected inflation at 4.6% in 2012 in EMs compared to 6% in 2011 and relative to global inflation of 2.8% and deflation of 0.6% in industrial economies. It forecast inflation at 5.4% in Emerging Europe, at 5.9% in the Middle East & Africa, at 3.6% in Emerging Asia, and at 5.8% in Latin America. Citigroup anticipated that significant challenges will limit policy flexibility in EMs.

Source: Citigroup

LIBYA

Non-hydrocarbon growth to average 27.5% in 2012-13, current spending trend leading to fiscal deficit by 2015

The International Monetary Fund projected Libya's real GDP growth at 116.6% in 2012 and 16.5% in 2013 relative to a contraction of 60% in 2011. It forecast hydrocarbon output to increase by 205.6% in 2012 and 12.7% in 2013 compared to a contraction of 56.2% last year, and for the non-hydrocarbon sector to grow by 30% in 2012 and 25% in 2013 relative to a contraction of 63.1% in 2011. It attributed the rapid recovery in economic activity to the restoration of hydrocarbon production, which reached 90% of pre-conflict levels. It anticipated that reconstruction expenditures and improvements in private demand to stimulate the recovery in non-hydrocarbon sectors.

In parallel, the Fund expected the recovery in the hydrocarbon sector and increase hydrocarbon exports to lead to a fiscal surplus of 14.2% of GDP in 2012 compared to a deficit of 27% of GDP last year, and to increase the current account surplus to 21.9% of GDP in 2012 from 1.3% of GDP in 2011. It anticipated that capital spending will remain constrained by limited execution capacity, while current spending on wages and subsidies will increase to 30% of GDP in 2012 and expenditures on subsidies and transfers will rise to 13.3% of GDP. It said that

Libya's budget breakeven oil price increased to \$91 per barrel in 2012 from \$58 per barrel in 2010 and will exceed \$100 per barrel in 2013. It warned that unchanged fiscal policies would erode Libya's wealth, as maintaining current spending trends would shift the budget balance to a deficit by 2015.

In parallel, the IMF noted that Libya's short-term challenges include managing the political transition, normalizing the security situation and exercising budget discipline, while maintaining macroeconomic stability. It pointed out that the increase in wages and subsidies is eroding the country's fiscal buffers and undermining prospects for fiscal sustainability. Further, it said that Libya needs to rebuild its infrastructure, develop its financial market, reduce hydrocarbon dependence, and implement an efficient social safety net.

Source: International Monetary Fund

SAUDI ARABIA

Fiscal breakeven oil price to reach \$120 per barrel by 2020, deficit to materialize by 2023

Merrill Lynch projected Saudi Arabia's fiscal breakeven oil price at \$120 per barrel (p/b) by 2020, which would lead to fiscal deficits and domestic debt accumulation from the next decade onwards, and would potentially constrain economic growth. It attributed the upward trend in the Kingdom's breakeven oil price to limited increases in future crude oil production, growing domestic crude oil consumption, and increasing fiscal spending. It expected oil production to increase by 4 million barrels per day (b/d) by 2035 compared to a rise of 7.8 million b/d between 1965 and 2012. It said that domestic crude oil consumption increased on average by 4.1% annually during the 2002-11 period. It noted that oil is sold domestically at subsidized rates, which reduces the government's oil proceeds and raises the fiscal breakeven oil price. It added that the country's crude oil exports reached 7 million b/d in 2011 and domestic oil consumption stood at 2.3 million b/d. Further, it pointed out that the recent increases in budgetary spending are eventually unlikely to be matched by simultaneous increases in revenues, given that oil production gains would be more restrained. It said that fiscal spending increased by an average of 12.4% annually during the 2000-12 period, slightly below the long-term average of 13.5% between 1970 and 2012, and compared to a rise of 16.1% between 2005 and 2011. In comparison, it noted that government revenues increased by an average of 23% annually between 1970 and 2011, but with large volatility.

In parallel, Merrill Lynch expected Saudi Arabia to start running continued fiscal deficits by 2023, with foreign exchange reserves peaking around that time. It based its projection on oil production rising by 1.6% annually to 14.2 million b/d by 2035, oil prices remaining broadly flat in real terms over 2012-35 period but reaching a nominal value of \$200 p/b in 2035, and real expenditures per capita growing by 0.6% annually by 2013 relative to average growth of 2.2% between 1990 and 2011. Merrill Lynch cautioned that a sustained and large drop in oil prices would entail fiscal deficits of varying sizes, force cut-backs in capital expenditures, and lead to lower GDP growth.

Source: Merrill Lynch



ECONOMY & TRADE

GCC

Credit quality of corporates improves

Moody's Investors Service indicated that the credit quality of rated non-financial corporates in the Gulf Cooperation Council (GCC) markets continues to improve due to high oil prices, economic activity, and the reduction of refinancing exposures. It said that high oil prices enhanced the GCC governments' ability to invest in public and social programs. It noted that the spending increase has directly helped corporates in the infrastructure, utility & energy and real estate industries; and indirectly supported corporates in the retail, hospitality and tourism sectors by increasing consumer spending. It added that GCC corporates have reduced their refinancing exposure and strengthened their liquidity profiles by repaying debt or rolling over previous maturities. It expected the broadly solid credit profiles of rated issuers in Abu Dhabi and Qatar to continue benefiting from favorable government policies and strong public finances. In parallel, Moody's expected oil price volatility and regional geopolitical factors to have a moderately adverse impact on the credit quality of rated corporate issuers due to the strategic nature of governments' investment programs. It noted that the hydrocarbon wealth accumulated over the past decade would allow governments to sustain their spending programs in the event of a further rise in the region's breakeven oil prices, which would limit the downside risks for corporates that rely on them. Further, it said that the partial retrenchment of European banks from the GCC does not constitute a source of concern for rated corporates in the region.

Source: *Moody's Investors Service*

IRAQ

Fiscal outlook unaffected by supplementary budget

Citigroup did not anticipate the recently approved supplementary budget of \$9.34bn to impact Iraq's fiscal outlook, despite that it increases planned expenditures to \$109.85bn in 2012. The supplementary budget allocates \$1.7bn to the Ministry of Electricity and \$1.2bn to subsidies, among others. It noted that the supplementary budget would increase the government's budgeted deficit to 15% of GDP from 9% of GDP, assuming average oil prices of \$85 per barrel for Iraqi oil exports. But Citigroup maintained its forecast for a fiscal surplus of 12% of GDP in 2012. It said that this reflects average oil prices closer to \$115 per barrel for the year, which would generate significantly higher revenues than the official projections. It added that Iraq's ability to execute budgeted expenditures has been weak historically, as budget execution does not exceed 80% of planned expenditures. It indicated that the government has been unable to redirect unspent allocations in the budget. Further, it noted that the allocation of funds is predefined in the annual budget, which means that the government is unable to use unspent allocations for purposes other than those specified in the budget. As such, it pointed out that seeking a supplementary budget suggests that planned expenditures require further fund allocations.

Source: *Citigroup, JPMorgan*

SUDAN

Khartoum faces increasing challenges to replace lost oil revenues

Business Monitor International indicated that Sudan faces significant challenges, as it seeks to replace oil reserves and production lost to South Sudan after the latter's independence in July 2011 and the subsequent transfer of ownership of 75% of oilfields to the South. It said that the loss of oil revenues and the subsequent cessation of oil production by South Sudan, combined with double-digit inflation and a weakening currency, required a series of austerity measures by the government. But it expected the country's fiscal balance to still post a deficit of \$3.1bn in 2012 despite efforts to reduce spending. It estimated Sudan's current oil output at just over 110,000 barrels a day (b/d) compared to the government's estimate of 115,000 b/d, as the Heglig field, one of the country's largest fields, is still running below its full capacity. BMI pointed out that restoring the field's full capacity constitutes the government's priority in the short-term, and that the future of the country's oil industry is the authorities' main concern. It said that international sanctions prevented almost all national and independent oil companies from operating in Sudan. But it noted that the government issued nine new exploration and production sharing agreements to foreign oil companies this month. It estimated the identification and appraisal of new fields at \$1bn. It considered that it will take years before oil revenues begin to rise to the levels prior to the South's independence. It added that a significant number of companies operating in Sudan's oil sector currently own assets in South Sudan and may be targeting future investments there.

Source: *Business Monitor International*

ARMENIA

Innovation capacity improves in 2012

INSEAD's Global Innovation Index for 2012 ranked Armenia in 69th place among 141 countries around the world, unchanged from 2011 and up from 82nd place in 2010. It also ranked Armenia in fourth place among 11 countries in the Commonwealth of Independent States (CIS), and in fifth place among 36 Lower Middle-Income Countries (LMIC). The index is a composite of 84 variables grouped in two sub-indices that reflect a country's innovation environment as well as its creative output. Globally, Armenia ranked ahead of Argentina, Georgia and Bosnia & Herzegovina, and came behind Greece, Uruguay and Mongolia. Armenia received a score of 34.5 points, up from 33 points in 2011. Its score was lower than the global average of 36.8 points, but higher than the CIS average of 32.2 points and the LMIC's average of 28.3 points. Armenia ranked in 73rd place globally, in fourth place in the CIS and in third place among LMIC on the Innovation Input Sub-Index, which covers the elements of the national economy that enable innovative activities, such as institutions, human capital and research, infrastructure, market sophistication, and business sophistication. It also ranked in 68th place worldwide, in fourth place regionally and in eighth place among LMIC on the Innovation Output Sub-Index, which reflects the results of innovative activities within the economy such as technology, knowledge and creativity.

Source: *INSEAD, Byblos Research*



BANKING

SYRIA

Damascus asked to clarify status of anti-money laundering measures

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Syria has previously taken significant steps towards improving its AML/CFT regime. It noted, however, that further engagement with Syria was needed to clarify whether the remaining deficiencies have been addressed through the implementation of its action plan, despite its high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its strategic AML/CFT deficiencies. The FATF noted that Syria's action plan includes implementing adequate procedures for identifying and freezing terrorist assets; ensuring financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to ML and FT; and ensuring that appropriate laws and procedures are in place to provide mutual legal assistance. The FATF encouraged Syria to demonstrate that its remaining deficiencies have been addressed to enable the organization to properly evaluate the country's progress.

Source: *Financial Action Task Force*

EGYPT

Concentration risks on the rise

The Institute of International Finance indicated that Egypt's banking system remains relatively resilient, with the sector's capital adequacy ratio at 16% in fiscal year 2011/12 compared to 16.3% in FY2010/11, the non-performing loans (NPLs) ratio almost unchanged at 11% in FY2011/12, and provisions against NPLs at 94.6% in FY2011/12. However, it expected the full extent of asset quality deterioration to materialize in the next few months, which would lead to a higher level of NPLs and lower profits. It added that the sector's liquidity is adequate, with the loan-to-deposit ratio ranging between 50% and 54%. It noted that loans and advances increased by 5.3% year-on-year in March 2012, and total deposits grew by 5.9% during the same period. Further, it pointed out that the domestic banking system is mainly financing the country's fiscal deficit. It added that the increase in T-bills rates encouraged local banks to allocate a large portion of their portfolio to government securities. It noted that this has increasingly exposed the banks to sovereign credit risk, as their claims on the government rose to 38% of their total assets in FY2011/12 from 26% in FY2009/10. The IIF considered that the excessive reliance on domestic banks for financing the deficit is weighing on the allocation of credit to the private sector and is putting upward pressure on domestic interest rates, while exposing banks to excessive concentration risk.

Source: *Institute of International Finance*

SAUDI ARABIA

Profits of listed banks up 10% in second quarter

The aggregate net profits of 10 listed Saudi banks, representing 76% of the market, reached SAR7,442bn or \$2bn in the second quarter of 2012, constituting an increase of 10% from the same period last year and a 1% decrease from the first quarter of 2012. Total revenues stood at SAR12,816bn in the second quarter of 2012, up 11.6% year-on-year and 3.7% quarter-on-quarter.

Also, net special commission income (NSCI) totaled SAR8,253bn and rose by 4% annually and quarterly, while the NSCI margin stood at 2.7% in the second quarter of 2012 compared to 2.87% in the same quarter last year and 2.67% in the preceding quarter. Further, total assets of the 10 listed banks reached SAR1,226.6bn, or \$327.1bn, at the end of June 2012, constituting an increase of 1% from end-March 2012 and a rise of 10.5% from end-June 2011. Customer loans totaled SAR763,5bn at end-June, up by 16.3% annually and by 4% quarterly. The stronger-than-expected loan growth reflects improved credit demand from corporates as well as strong consumer credit demand. Also, customer deposits totaled SAR923,7bn at end-June 2012, up by 1.6% from end-March 2012 and by 11.5% from a year earlier and. In parallel, the loans-to-deposits ratio was 83% at end-June relative to 79% a year earlier, while the loans-to-assets ratio stood at 62% at end-June 2012 compared to 59% in June 2011.

Source: *Deutsche Bank*

TURKEY

Ratings on seven largest banks upgraded

Moody's Investors Service upgraded by one notch to 'Ba2' from 'Ba3' the long-term foreign currency deposit ratings of the country's seven-largest banks, namely Akbank, Ziraatbank, Garantibank, Halkbank, Isbank, Turkiye Vakiflar, and Yapi Kredi. It also upgraded the foreign currency debt and/or issuer ratings of Akbank, Garantibank, Isbank, Vakiflar and Yapi Kredi. Further, it lowered the seven banks' standalone credit assessments to 'ba1', in line with the sovereign rating. The agency attributed its actions to its earlier upgrade of Turkey's government bond rating to 'Ba1' from 'Ba2' with a 'positive' outlook given the improvement in the sovereign's creditworthiness. It noted that the sovereign upgrade has had credit-positive effects on the ratings of various banks in Turkey. It added that its actions were part of the review of Turkish banks' standalone credit assessments that were previously above the sovereign rating. It noted that the review took into account the high correlation between sovereign and bank creditworthiness.

Source: *Moody's Investors Service*

CHINA

Interest rate liberalization signals financial reforms

Standard & Poor's indicated that the recent relaxation of lending and deposit rate controls constitutes a significant step in the country's drive toward liberalizing interest rates and reforming the financial sector. It noted that the measures included a 10% margin given to banks to set their deposit interest rate compared to the previously rigid ceiling. It noted that this would lead to a 10 basis points drop in the sector's return on average assets in 2012 and another 20bps to 25bps fall in 2013. But it expected the authorities' actions to speed up the shift in the sector's loan mix away from large companies towards small- and medium-sized enterprises as the spread on loans to large corporate would narrow with further liberalization of interest rates. In parallel, S&P anticipated that the pace of interest rate liberalization and the shift in the loan mix to be gradual, which would avoid major downside risks for the Chinese banking sector.

Source: *Standard & Poor's*



ENERGY / COMMODITIES

Brent prices steady above \$100 a barrel

Brent crude prices remained above \$100 a barrel on July 12, due to uncertainties on whether the U.S. Federal Reserve would launch further monetary stimulus measures. Also, oil prices were supported by lower U.S. crude stockpiles and worries about declining exports from Iran. OPEC expects another slowdown in the growth of the world's oil demand in 2013 due to Europe's debt worries, faltering economic recovery in the U.S., and slower growth in emerging markets. Brent crude prices declined by 17 cents to \$100.1 a barrel on July 12, with worries about tight supplies from the North Sea. Also, U.S. oil crude prices declined by 19 cents to \$85.6 a barrel. The global oil market is expected to remain tight in the second half of 2012 as demand picks up slightly and as Saudi Arabia production cuts reduce supply. Oil prices are projected to increase over the coming months to an average price of \$110 a barrel.

Source: Thomson Reuters, Business Monitor International

Iran plans to sell oil through consortium

Iran reached agreements with European refiners to sell some of its oil through a private consortium. The agreement was signed between the exporters' union in Iran, the Central Bank of Iran and the Iranian Oil Ministry to circumvent the EU ban on shipping insurance for tankers carrying Iranian oil. The EU put into effect a ban on the import and shipping of Iranian oil on July 1st.

Source: Thomson Reuters

Iran ready to insure foreign oil tankers

Iranian insurers Central Insurance Co and Kish Protection & Indemnity Club (Kish P&I) reported that they are ready to provide insurance coverage for tankers carrying Iranian oil. Kish P&I noted that it recently provided insurance coverage for oil tankers and that 13 new oil tankers are set to be insured in the near future. The services will be offered in cooperation with the Iranian ministries of Oil, Industry, and Mine & Trade.

Source: Tehran Times

Nigeria's Cabinet approves oil sector bill

Nigeria's Cabinet approved a final draft of the Petroleum Industry Bill, which is needed to unblock billions of dollars of stalled investment into oil exploration and production. The bill includes plans to partly privatize and list the state oil company, as well as taxing oil company profits at 20% for deep offshore drilling and 50% for onshore drilling. However, the bill gives more favorable tax terms to foreign companies.

Source: Thomson Reuters

Algeria to increase oil investments to \$80bn

Algeria's state oil firm Sonatrach, announced plans to increase its current investment in developing oil exploration, refining and petrochemical industries by \$17.8bn to \$80bn over the next four years. Sonatrach's financial results showed that it had exported about 57.2 million tons of oil equivalent hydrocarbons. Sonatrach's activities cover oil exploration, extraction, transport, refining, petrochemicals and seawater desalination.

Source: Thomson Reuters

Base metals: Prices to decline on slower Chinese growth

Base metal prices fell in the past week, where copper prices declined by 4% week-on-week on July 10th. Also, easing monetary policies through cutting interest rates in a number of countries have not offset the impact of slowing economic growth. The outlook for base metals is still bearish over the short term due to the continued Eurozone crisis and lower expectations of Chinese economic growth.

In parallel, zinc prices gained 0.5% to \$1,839 a ton on July 12th, and three-months zinc prices are expected to average \$1,950 per ton in 2012. Zinc supply is projected to decline over the long term as mined supply decrease in 2014 and 2015. The construction sector accounts for around 49% of global zinc demand, with China accounting for 42% of global refined zinc consumption. Further, zinc demand growth in China is expected at 1.9% in 2012 and 3.7% in 2013, a significant slowdown compared to the average growth rate of 11.3% in 2008-2011.

Source: Standard Chartered, Business Monitor International

Precious metals: Prices down on strengthening dollar

Precious metal prices decreased in the past week, as the U.S. dollar strength weighed on the metals complex. Gold outperformed other metals but prices declined by 2% week-on-week on July 10, while silver and platinum prices were down 4% and palladium prices declined by 3% week-on-week. Also, gold and platinum have both proved to be relative safe havens so far in 2012. Gold prices increased by 1% year-to-date, while platinum increased by 3%.

The latest trade figures from Hong Kong showed that China imported 76 tons of gold in May 2012, down from 104 tons in the previous month. Also, total Chinese demand for gold is estimated at around 870 tons so far in 2012. Spot gold prices declined by 2.3% week-on-week to \$1,569 per ounce on July 12, while silver prices decreased by 2.8% to \$26.9 per ounce. Further, platinum prices decreased by 3.9% week-on-week to \$1,424 per ounce and palladium prices declined by 1.3% to \$579 per ounce on July 12th. Operating costs have escalated dramatically for platinum in recent years and many producers in Africa are under pressure to close.

Source: Standard Chartered, Thomson Reuters

Global Commodity Outlook			
(3-months LME, \$/ton)	2011	2012f	2013f
Aluminum	2,424	2,084	2,200
Copper	8,833	8,114	9,000
Lead	2,391	2,063	2,300
Nickel	22,896	18,728	21,000
Tin	26,042	22,266	25,500
Zinc	2,212	2,018	2,250
(Spot price, \$/ounce)			
Gold	1,573	1,688	1,900
Palladium	733	665	800
Platinum	1,720	1,652	1,850
Silver	35	32	35

Source: Standard Chartered



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

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Asia													
Armenia	-	Ba2	BB-	-	-	-3.8	41.5	65.5	304.5	-	352.6	-11.7	6.4
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.1	25.8	8.5	29.3	1.9	-	2.8	0.6
	Stable	-	Stable	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BBB	-5.9	68.1	17.8	62.2	11.1	-	-2.8	0.6
	Negative	Stable	Negative	Stable	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BBB	1.7	12.9	67.7	138.4	40.5	312.9	5.9	1.5
	Stable	-	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.1	17.8	84.7	90.3	19.3	240.1	1.6	4.0
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	BB	-4.4	34.4	72.3	189.9	24.6	256.0	-4.5	2.1
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	1.9	11.7	22.5	73.7	9.7	75.4	5.5	-0.7
	Stable	Positive	Stable	-	Stable								
Turkey	BB	Ba1	BB+	BB	B	-0.8	40.3	44.2	184.9	28.6	361.8	-10.3	1.0
	Stable	Positive	Stable	Stable	Stable								
Ukraine	B+	B1	B	-	CCC	-4.1	39.3	79.0	145.9	36.5	316.4	-3.9	4.2
	Negative	Negative	Stable	-	Positive								

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



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	20-Jun-12	No change	01-Aug-12
Eurozone	Refi Rate	0.75	05-Jul-12	Cut 25bps	02-Aug-12
UK	Bank Rate	0.50	05-Jul-12	No change	02-Aug-12
Japan	O/N Call Rate	0-0.10	15-Jun-12	No change	12-Jul-12
Australia	Cash Rate	3.50	03-Jul-12	Cut 25bps	07-Aug-12
New Zealand	Cash Rate	2.50	14-Jun-12	No change	26-Jul-12
Switzerland	3 month Libor target	0.00	14-Jun-12	No change	13-Sep-12
Canada	Overnight rate	1.00	05-Jun-12	No change	17-Jul-12
Emerging Markets					
China	One-year lending rate	6.00	05-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	20-Jun-12	No change	01-Aug-12
Taiwan	Discount Rate	1.88	21-Jun-12	No change	Sep-12
South Korea	Base Rate	3.25	08-Jun-12	No change	12-Jul-12
Malaysia	O/N Policy Rate	3.00	05-Jul-12	No change	06-Sep-12
Thailand	1D Repo	3.00	13-Jun-12	No change	25-Jul-12
India	Reverse repo rate	8.00	18-Jun-12	No change	31-Jul-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	21-Jun-12	No change	26-Jul-12
South Africa	Repo rate	5.50	24-May-12	No change	19-Jul-12
Kenya	Central Bank Rate	16.50	10-Jul-12	Cut 150bps	Aug-12
Nigeria	Monetary Policy Rate	12.00	21-May-12	No change	24-Jul-12
Ghana	Prime Rate	15.00	Jun-12	Raise 50bps	Aug-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	08-Jun-12	No change	20-Jul-12
Brazil	Selic Rate	8.50	30-May-12	Cut 75bps	11-Jul-12
Armenia	Refi Rate	8.00	08-May-12	No change	N/A
Romania	Policy Rate	5.25	30-Mar-12	Raise 25bps	N/A
Bulgaria	Base Interest	0.16	01-Jul-12	Raise 2bps	N/A
Kazakhstan	Refi Rate	6.00	06-Apr-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	May-12	Cut 25bps	N/A
Russia	Refi Rate	8.00	26-Dec-11	Cut 25bps	N/A



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