

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### **Bank lending conditions improve in second quarter of 2014**

The Emerging Markets Lending Conditions Index increased to 50.2 in the second quarter of 2014 from 48.2 in the preceding quarter, constituting its highest level since the first quarter of 2013. The index came above the 50 mark for the first time since the first quarter of 2013, reflecting an easing of overall bank lending conditions. The increase in the index reflects a substantial easing of banks' funding conditions, in line with increased risk appetite in financial markets and a rise in loan demand. Also, both domestic and international funding conditions improved after tightening sharply since the second quarter of 2013. Demand and supply for trade finance continued to expand, with many emerging markets benefiting from a recovery in mature economies. In contrast, banks' loan quality continued to deteriorate, while banks maintained tighter credit standards for loans. The improvement in bank lending conditions in the second quarter of the year was led by the MENA region whose Lending Conditions Index was the highest globally at 55.1, up from 53.3 in the first quarter of 2014. Also, the Lending Conditions Index for Emerging Europe increased to 52.7 in the second quarter of 2014 from 46.7 in the previous quarter, while the index for Sub-Saharan Africa region rose to 52.4 from 51.3 and that for Emerging Asia improved to 46.9 from 45.2 in the first quarter of the year. The Lending Conditions Index for Latin America declined to 47.1 in the second quarter of 2014 from 48.2 in the preceding quarter, reflecting a tightening in bank lending conditions.

*Source: Institute of International Finance*

##### **Trading in Credit Default Swaps up 40% to \$389bn in second quarter of 2014**

Trading in emerging markets Credit Default Swaps (CDS) reached \$389bn in the second quarter of 2014, constituting a decline of 5% from \$409bn in the first quarter of the year and a rise of 40% from \$279bn in the same quarter of 2013. The quarter-on-quarter decrease in CDS trading in emerging markets reflects better market sentiment and declining volatility in the second quarter of 2014. Argentina was the only country to post a quarter-on-quarter increase in CDS trading among emerging markets, given its high risk of default. The most frequently-traded sovereign CDS contracts in the second quarter of 2014 were those of Brazil at \$74bn, followed by Russia at \$62bn and Mexico at \$45bn; while the most frequently-traded corporate CDS contracts were those on Russia's Gazprom at \$3.6bn, Mexico's Pemex at \$3.1bn and Brazil's Petrobras at about \$2.4bn. The survey included Chilean CDS for the first time. It covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers from 13 major international banks and broker-dealers.

*Source: EMTA*

##### **Private equity investments up 28% to \$14bn in first half of 2014**

Private equity funds dedicated to emerging markets raised \$20bn in the first half of 2014, constituting an increase of 48% from \$13.5bn in the same period of 2013. Emerging Asia funds raised \$15.1bn, with China accounting for \$6.7bn and India for \$1.3bn, followed by Sub-Saharan Africa funds with \$2.2bn. Also, CEE & CIS funds raised \$1.5bn with Russia accounting for \$250m; followed by Latin America & the Caribbean with \$1bn, with Brazil accounting for \$480m. Also, MENA funds raised \$146m and multi-regional funds attracted \$19m. In parallel, private equity investments in emerging markets totaled \$14bn in the first half of 2014, up by 27.5% from \$10.9bn in the same period of 2013. The number of transactions reached 542 deals in the covered period compared to 450 deals in the first half of 2013. The average deal was worth \$25.7m in the first half of 2014, with the median investment size at \$12m. Emerging Asia attracted 77.5% of private equity investments in value terms, followed by Latin America & the Caribbean with 10.1%, Sub-Saharan Africa with 7.5%, the CEE & CIS with 3.1% and the MENA region with 1.8%. China attracted 42.2% of emerging markets private equity investments in the covered period, followed by India with 13.5% and Brazil with 6.2%.

*Source: Emerging Markets Private Equity Association*

#### MENA

##### **Software piracy losses up by 3% to \$1.6bn in 2013**

Software piracy-related losses in the Arab world reached \$1.63bn in 2013, constituting an increase of 3.2% from \$1.58bn in 2011 and compared to \$1.18bn in 2009 and \$960m in 2007. They accounted for 2.6% of global piracy-related losses in 2013 relative to a share of 2.5% in 2011. Saudi Arabia had the highest piracy-related losses among Arab countries in nominal terms with \$421m, followed by the UAE (\$230m), Egypt (\$198m), Iraq (\$116m) and Algeria (\$102m). Piracy losses in Oman rose by 80.6% from 2011, the highest increase in the Arab world, while losses in Yemen dropped by 40%, the steepest decline in the region over the covered period. In parallel, Libya had the highest piracy rate among Arab economies at 89%, followed by Yemen at 87%, Iraq at 86%, Algeria at 85% and Tunisia at 75%, while the UAE had the lowest regional rate at 36%, followed by Qatar with 49% and Saudi Arabia with 50%. In addition, the software piracy rate dropped by two percentage points in Yemen, the steepest decline in the region; while it rose in only Algeria, Egypt and Tunisia. The Middle East & Africa region had the third highest piracy rate in the world at 59%, similar to that of Latin America. The Asia Pacific region had a 62% piracy rate, followed by Central & Eastern Europe with 61%, Western Europe with 29% and North America with 19%. The global average piracy rate reached 43% in 2013 compared to 42% in 2011.

*Source: Business Software Alliance, Byblos Research*

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# OUTLOOK

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## MENA

### Arab Mediterranean banking sectors face challenging operating conditions

Standard & Poor's anticipated that banks in Egypt, Jordan, Lebanon, Morocco and Tunisia would face unstable and challenging operating conditions during the 2014-15 period. It said that sovereign creditworthiness would continue to drive banks' ratings during the covered period, given the banks' elevated holding of sovereign debt instruments. It noted that the banks' ratings in the five countries currently range from 'BB' to 'B-' relative to between 'BBB-' and 'B-' at the end of 2010, which reflects the deterioration in sovereign creditworthiness. It expected banks to continue to subscribe to sovereign securities, which would expose them to critical concentration risks.

In parallel, S&P indicated that the profitability, funding and asset quality of banks in these markets have remained fairly resilient despite regional unrest. It said that asset quality indicators did not deteriorate as banks have tightened their underwriting standards, and are focusing on existing lending relationships, while they are managing a limited and selective exposure to the retail sector. But it noted that non-performing loans could be underestimated, mainly in Egypt and Tunisia, due to the lack of timely identification, recognition and reporting of problem loans. However, it expected banks to continue to have sufficient absorption capacity to manage potential problems that may arise from their credit exposure to the private sector. Further, it indicated that deposits continue to grow, reflecting sustained confidence in banks. But it anticipated that banks' funding profiles in Tunisia and Morocco would remain under pressure, as available deposits can barely accommodate new lending. Further, it expected commercial lending opportunities to remain limited for banks in the five countries due to the slow recovery in their domestic economies and to persistent political uncertainty.

Source: Standard & Poor's

## TURKEY

### Near-term outlook improves, downside risks remain

The Institute of International Finance projected Turkey's real GDP growth at 3.5% in 2014 and 2015 compared to a growth rate of 4% in 2013. It attributed the slowdown in economic activity to the modest growth of domestic consumption and investment. It added that the gradual recovery in the Eurozone and the competitiveness gains from the weak Turkish lira would sustain solid export growth, but at a decelerating pace. It expected the inflation rate to gradually decrease to 8.3% at end-2014, but to remain higher than the 7.4% level at end-2013. Further, it forecast the current account deficit to narrow from 7.9% of GDP in 2013 to 5.5% of GDP in 2014 as the weaker lira would strengthen exports and shift demand away from imports.

The IIF considered that Turkey's near-term outlook has improved due to the rebound in global risk appetite and the easing of domestic political tensions since March 2014. It said that currency depreciation pressures have eased, access to foreign funding has improved and risk premia have dropped, which allowed the Central Bank of Turkey (CBT) to pursue an aggressive monetary easing even though the inflation rate remains

well above target. It expected fiscal and monetary policies to remain accommodative, which would support output growth in the near-term, but would worsen the already sizable macroeconomic imbalances.

However, the IIF considered that downside risks remain substantial, given Turkey's excessive reliance on foreign capital inflows. It noted that such dependence leaves the economy vulnerable to global or regional shifts in market sentiment and makes it increasingly difficult to reach a sustainable growth path in the medium-term. It said that the main short-term risks are related to the potential volatility of capital flows and the rising geopolitical tensions in the region. It noted that Turkey would be among the hardest hit emerging economies if risk aversion resumed, which would force the CBT to sharply tighten its monetary policy. It cautioned that the intensification of geopolitical tensions, mainly in Russia and Iraq, constitutes another major risk. It noted that real GDP growth would decelerate to 2.8% in 2014 and the current account deficit would widen to 6% of GDP if half of Turkey's exports to Iraq and Russia are disrupted during the remainder of the year.

Source: Institute of International Finance

## CÔTE d'IVOIRE

### Positive economic outlook for 2014-15

Fitch Ratings projected Côte d'Ivoire's real GDP growth at 9% in 2014 and 8.5% in 2015, compared to a growth rate of 9.1% in 2013, supported by infrastructure investments and structural reforms. It noted that the current investment plan targets infrastructure and would support the development of the private sector as well as the country's integration within the Economic Community of West African States. It added that hydrocarbons would be a modest growth engine over the medium term, while the untapped domestic mining potential would support economic activity over the long term. It indicated that renewed conflict or insecurity constitutes the main risk to the outlook. It considered that the 2015 presidential elections would be a key test to domestic stability. It added that lower official external financing could negatively affect growth prospects. It forecast the average inflation rate at 1.2% in 2014 and 2% in 2015.

Fitch anticipated the fiscal deficit at 2.3% of GDP in 2014 and at 3% of GDP in 2015 compared to a deficit of 2.3% of GDP in 2013. It noted that the deficit would not exceed 3% of GDP in coming years despite a significant increase in capital spending and the potential rise in election-related expenditures. It forecast the public debt level to gradually decline from 43.8% of GDP in 2013 to 42.9% of GDP in 2014 and 41.3% of GDP in 2015, supported by debt repayments, solid economic activity and manageable budget deficits.

In parallel, Fitch expected the current account balance to remain in deficit in coming years and to widen from 1.6% of GDP in 2013 to 2.3% of GDP in 2014 and to 3.1% of GDP in 2015. It forecast the country's foreign currency reserves at \$5bn in 2014, or 3.5 months of import cover, and at \$5.4bn in 2015 or 5.4 months of import cover. It projected Côte d'Ivoire's gross external financing requirements at 38.3% and at 40.1% of international reserves, respectively, in 2014 and 2015.

Source: Fitch Ratings

# ECONOMY & TRADE

## JORDAN

### Reduced growth prospects and elevated social spending constrain sovereign creditworthiness

Moody's Investors Service indicated that Jordan's 'B1' sovereign rating reflects the country's reduced growth prospects, elevated and rising government debt level, persistent fiscal deficits, low economic wealth, and increased political and policy risks from regional turmoil. It said that the government is facing continued pressure to maintain social spending, and that high global oil prices are negatively affecting the country's fiscal and current account balances. It noted that the rising number of Syrian and Iraqi refugees has further weighed on public finances. It considered that Jordan's credit challenges are mostly related to its wide fiscal and current account deficits. It forecast the government debt level to exceed 90% of GDP in 2014 compared to 80.2% of GDP in 2012, reflecting the persistent fiscal deficit and social spending pressures. It said that Jordan's external position continues to rely on large and volatile foreign direct investment inflows to finance its wide current account deficit. It noted that the level of foreign currency reserves remains low compared to the country's external debt payments, despite that such reserves rose from \$7.9bn at the end of 2012 to \$13.8bn as of April 2014. In parallel, the agency indicated that the ratings are supported by a favorable debt structure that poses low debt rollover risks, as well as by international financial support and a relatively strong institutional framework.

Source: *Moody's Investors Service*

## UAE

### Abu Dhabi ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Abu Dhabi's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'AA', with a 'stable' outlook. It also maintained the short-term foreign currency IDR at 'F1+' and the UAE Country Ceiling at 'AA+'. It said that the ratings are supported by a strong sovereign balance sheet, wide fiscal and current account surpluses, robust economic growth, declining debt of government-related entities (GREs) and of sovereign-owned entities (SOEs), and improving banking sector performance. It estimated Abu Dhabi's sovereign net foreign assets at 178% of GDP in 2013 compared to 151% of GDP in 2012, the second highest such ratio in the world after Kuwait. Also, it estimated that the fiscal surplus reached around 10% of GDP in 2013 despite a rise in public spending of about 3% of GDP and a slight decline in public revenues. It expected the current account surplus to gradually narrow from 16.6% of GDP in 2013 to 7.6% of GDP in 2016. Further, it said that the debt of GREs and SOEs fell to 35.4% of Abu Dhabi's GDP last year, reflecting the authorities' commitment to contain indebtedness. It noted that explicit contingent liabilities are clearly delineated and that the borrowing plans of GREs and SOEs are closely monitored. In parallel, the agency indicated that the banking sector has become more resilient, in line with the economy's strengthening. It said that the non-performing loans ratio at Abu Dhabi banks fell to a five-year low and provisioning is at a six-year high. It noted that the substantial increase in residential real estate prices in the UAE do not pose a serious risk to Abu Dhabi banks, given that the current rise is not reliant on leverage.

Source: *Fitch Ratings*

## SUDAN

### Authorities committed to address imbalances

In a Letter of Intent to the International Monetary Fund, Sudanese authorities pledged to continue fiscal consolidation, to maintain a tight monetary policy, to address external imbalances and to implement structural reforms. The government forecast non-hydrocarbon real GDP growth at 2.5% in 2014 compared to an estimated growth rate of 2% in 2013, supported by a rebound in the agricultural sector and by continued export growth. Authorities added that they are committed to reduce the inflation rate from 41.9% at end-2013 to 18.1% at the end of 2014 through fiscal consolidation, monetary tightening and the stabilization of the exchange rate. They are also targeting a fiscal deficit of about 1.2% of GDP in 2014 compared to an estimated deficit of 2.1% of GDP in 2013, supported by improved revenue collection and lower public spending. The government forecast tax revenues at 6.5% of GDP and current spending at 11.5% of GDP in 2014. It plans to implement a set of revenue-enhancing measures that include reducing tax exemptions and strengthening taxpayers' compliance. It also aims to limit monetary financing of the fiscal deficit to 0.5% of GDP this year. Further, authorities expect the current account deficit to narrow from about 10.6% of GDP in 2013 to 6.9% of GDP in 2014, and to be financed mostly by non debt-creating flows. In parallel, the government will allow commercial banks and foreign exchange bureaus to set freely the exchange rate they quote to customers within the trading bands. The indicative rate became flexible in June 2014.

Source: *International Monetary Fund*

## ANGOLA

### Sovereign ratings upgraded, outlook 'stable'

Moody's Investors Service upgraded Angola's foreign and local currency government bond ratings to 'Ba2' from 'Ba3' with a 'stable' outlook. It also upgraded the country's foreign currency ceilings for bank deposits from 'B1/NP' to 'Ba3/NP'. It attributed the upgrades to the country's strong medium-term outlook, to the continuous improvement in the government's credit metrics and to progress in the implementation of reforms. First, the agency projected non-hydrocarbon growth to remain in upper single-digits in coming years, driven by the construction, manufacturing and agricultural sectors. It expected oil production to reach a minimum of two million barrels per day (b/d) in 2015 and beyond, compared to 1.73 million b/d in 2013. Second, it noted that the debt level regressed from 27% of GDP in 2010 to 23% of GDP in 2013 and that the debt servicing cost stood at 2.1% of revenues, which are among the lowest levels in similarly-rated economies. It added that the debt-to-revenue ratio reached 60% in 2013, the lowest such ratio among peers. It forecast foreign currency reserves at \$36bn at the end of 2014 compared to \$32.4bn or 7.8 months of import cover at end-March 2014. Third, it indicated that authorities have gradually implemented reforms and created new instruments to reduce the dollarization of the economy from 59% in 2009 to 42% in 2013. They also increased the transparency of public institutions and improved public finance management. Moody's said that the ratings are constrained by the low economic diversification and by weak institutions and infrastructure.

Source: *Moody's Investors Service*



# BANKING

## SYRIA

### Currency to weaken over the near term

Business Monitor International anticipated that the Syrian authorities would gradually devalue the Syrian pound on the official market in the second half of 2014, given the elevated inflation level and the ongoing conflict. It forecast the pound to trade at SYP160 against the US dollar on the official market at the end of 2014 compared to a current rate of SYP151.57 per dollar. It said that the pound was trading at about SYP170 against the US dollar in the black market at the end of May, after stabilizing around SYP150 per dollar in the fourth quarter of 2013 and in the first quarter of 2014. In parallel, BMI expected the currency to weaken significantly in coming years. It projected the official exchange rate at SYP190 per dollar by the end of 2015, and expected the pound to lose more than half of its current value by the end of 2018. It noted that the pound has already lost more than 70% of its value since the beginning of the conflict in March 2011. Further, it forecast inflationary pressure to remain elevated over the next five years with an average annual inflation rate of 34%. It said that the high inflation rate would continue to weigh on the value of the pound. It noted that a complete collapse in the value of the currency is unlikely, but it cautioned that the intensification of the conflict would trigger further foreign currency outflows. It considered that the Central Bank of Syria (CBS) has enough foreign currency reserves to prevent a sharp depreciation of the pound on the black market over the next few months. But it noted that the CBS would not be able to prevent strong downside pressure on the exchange rate over the long term.

Source: *Business Monitor International*

## EGYPT

### Banks' exposure to government debt up 30% to \$105bn at end-May, equivalent to 41% of assets

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,837.7bn, equivalent to \$256.8bn at the end of May 2014, constituting an increase of 9.1% from the end of 2013 and a rise of 16.1% from end-May 2013. Lending to the private sector reached EGP536.7bn or \$75bn, and rose by 6.4% from end-2013 and by 6.1% year-on-year. Banks' exposure to government securities totaled EGP750bn at end-May 2014, equivalent to \$104.8bn, and rose by 11.6% from end-2013 and by 30.4% from a year earlier. Banks' sovereign exposure in local currency stood at EGP665.4bn and increased by 12.6% from end-2013 and by 28.5% year-on-year; while their exposure in foreign currency reached EGP84.6bn and rose by 4.2% from end-2013 and by 48% from a year earlier. In US dollar terms, banks' sovereign exposure in local currency stood at \$93bn, while their exposure in foreign currency reached \$11.8bn. Further, total deposits reached EGP1,403.3bn or \$196.1bn, constituting an increase of 6.6% from end-2013 and of 20% from a year earlier. Private sector deposits totaled EGP1,225.4bn or \$171.3bn at end-May 2014, and rose by 7% from end-2013 and by 17.2% year-on-year. Also, private sector deposits in foreign currency grew by 4.4% year-on-year to EGP240.3bn or \$33.6bn, at the end of May 2014; while those in local currency rose by 20.8% from end-May 2013 to EGP985.1bn or \$137.7bn.

Source: *Central Bank of Egypt, Byblos Research*

## MOROCCO

### Ratings on banks affirmed

Fitch Ratings affirmed the long- and short-term foreign currency Issuer Default Ratings (IDR) of Attijariwafa Bank (AWB) and Banque Marocaine du Commerce Extérieur (BMCE) at 'BB+/B'. It also maintained the National Long-term Rating of Banque Marocaine pour le Commerce et l'Industrie (BMCI) and of Société Générale Marocaine de Banques (SGMB) at 'AAA(mar)'. It noted that all banks' ratings have a 'stable' outlook except for SGMB that has a 'negative' outlook on its rating. It said that the IDRs on AWB and BMCE reflect the moderate probability of support from authorities to both banks in case of need. It noted that the ratings on BMCI and on SGMB reflect the high probability of support, if required, from their respective major shareholders BNP Paribas and Société Générale. It said that the 'negative' outlook on SGMB's rating mirrors that on the ratings of Société Générale. In parallel, the agency maintained the Viability Ratings (VRs) of BMCE at 'b+' and of AWB at 'bb-'. It attributed BMCE's VR to its modest asset quality and capital ratios, given its risk appetite towards higher-risk and volatile economic environments. It also indicated that BMCE's VR reflects its acceptable profitability level and overall adequate funding and liquidity profiles. Further, it attributed AWB's VR to the bank's modest capital ratios and moderate asset quality, given its high loan concentration, significant international exposure to weak economies, and high related-party lending. It added that AWB's VR reflects its capacity to generate sustained profitability and its overall acceptable funding and liquidity profiles.

Source: *Fitch Ratings*

## ETHIOPIA

### Progress in 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 Ethiopia has made significant progress since June 2010 to improve its AML/CFT regime. Ethiopia made a high-level political commitment in June 2010 to work with the FATF to address its strategic AML/CFT deficiencies. The FATF noted that Ethiopia has substantially addressed its action plan, including by adequately criminalizing money laundering and terrorist financing; by establishing a legal framework and procedures to identify and freeze terrorist assets; by ensuring a fully operational and effectively functioning financial intelligence unit; by improving customer due diligence measures; by raising awareness of AML/CFT issues within the law enforcement community; and by establishing an AML/CFT supervisory framework. The FATF indicated that it will conduct an on-site visit to confirm that the process of implementing the required reforms and actions is addressing previously identified deficiencies.

Source: *Financial Action Task Force*



# ENERGY / COMMODITIES

## Brent oil prices to average \$110 a barrel in 2014

Brent crude oil prices are projected to trade at between \$105 a barrel and \$114 a barrel in 2014, while WTI prices are expected to fluctuate between \$97.5 a barrel and \$104.5 a barrel this year. Brent oil prices are forecast to slightly increase through 2015, reflecting concerns of instability in oil-producing regions, while WTI prices would continue to decrease in the covered period due to expectations of a rise in U.S. oil supply. According to the International Monetary Fund, the probability of WTI crude oil prices dropping below \$90 a barrel and Brent prices below \$100 a barrel in the next 12 months rose to about 40%. In parallel, the Bloomberg Energy Total Return Sub-Index regressed by 7.8% in July and grew by 0.3% in the first seven months of 2014, while the Petroleum Sub-Index declined by 5.5% last month and rose by 0.5% from end-2013. Also, the Bloomberg WTI Crude Oil Total Return Sub-Index decreased by 6.3% last month and improved by 4.4% in the first seven months, while the Brent Crude Oil Sub-Index dropped by 4.8% last month and by 1.1% from end-2013.

Source: International Monetary Fund, Thomson Reuters

## Iraqi Kurdistan's oil pipeline capacity to double

The Kurdistan Regional Government (KRG) indicated that the capacity of its independent oil pipeline would nearly double to about 220,000 barrels per day (b/d) by the end of August 2014. The KRG sold its first independent crude oil shipment to international markets through the Turkish export hub of Ceyhan in May 2014, despite strong opposition from the central government in Baghdad. In parallel, about 7.8 million barrels of Kurdish crude oil have so far flowed through the region's independent pipeline, of which 6.5 million barrels or 83% of the total were loaded onto tankers for export.

Source: Thomson Reuters

## Algeria's oil exports down 31% in first quarter

Algeria's hydrocarbon exports decreased by about 9% in the first quarter of 2014. Crude oil exports totaled 42 million barrels in the first quarter, down by 31.2% from the same quarter last year; while natural gas exports decreased by 29.1% to 7.8 billion cubic meters in the first quarter of 2014. In addition, exports of oil refined products rose by 69.5% year-on-year to 33.9 million barrels in the covered quarter. The country's total energy export receipts reached \$15.57bn in the first quarter of the year, down 11.8% from the same quarter of 2013. The country's oil and gas production has been stagnating since 2010 due to a drop in exploration activity and to a lack of investment from foreign companies.

Source: Thomson Reuters, Byblos Research

## Middle East accounts for 54% of world's proven crude oil reserves

The Middle East region's proven crude oil reserves reached 803.2 billion barrels at the end of 2013, equivalent to 53.9% of the world's oil proven reserves and reflecting an increase of 0.5% from 2012. Saudi Arabia had the region's largest proven oil reserves with 265.8 billion barrels, or 33.1% of the region's aggregate reserves in 2013. It was followed by Iran with 157.8 billion barrels (19.6%), Iraq with 144.2 billion barrels (18%), Kuwait with 101.5 billion barrels (12.6%) and the UAE with 97.8 billion barrels (12.2%).

Source: OPEC, Byblos Research

## Base Metals: Chinese steel supply to account for 49% of global crude steel production in 2014

The United States' steel prices are expected to ease in coming months due to stronger competition from cheaper steel imports. The spread between the U.S. and Chinese benchmark steel prices, which is currently at a multi-quarter high, would lead to a rise in demand of less expensive Chinese steel. In addition, Chinese producers would sell their excess steel output on global markets. But the rise of anti-dumping investigations by some countries, including the U.S., in recent quarters would limit a sustained increase in the Chinese exports of the metal. China's steel supply is projected to grow by an annual rate of 2.4% between 2014 and 2018, while the metal's consumption would rise by an average rate of 2.9% per year during the covered period. Chinese steel is forecast to account for 49% of the world's crude steel production in 2014 and for about 45% of the metal's global consumption. Chinese hot rolled steel prices averaged \$546 a ton in the first quarter of 2014, down by 2% from an average of \$557 a ton in the fourth quarter of 2013.

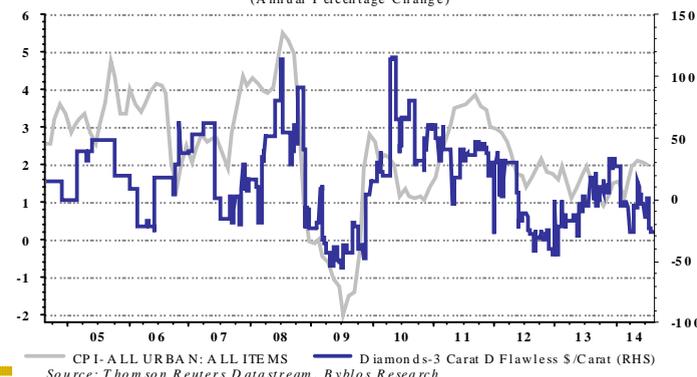
Source: Business Monitor International, Economist Intelligence Unit, Bloomberg Indexes, Byblos Research

## Precious Metals: Gold prices down 9% in second quarter of 2014, global consumption at \$40bn

Gold prices averaged \$1,288.4 a troy ounce in the second quarter of 2014, down by a marginal 0.4% from the preceding quarter and by 9% from the same quarter of 2013. Global gold consumption reached 963.8 tons in the second quarter of 2014, equivalent to \$39.9bn, and constituting a decrease of 16.1% from 1,148.3 tons in the same quarter last year. Gold jewelry demand totaled 522.6 tons in the second quarter, equivalent to \$21.1bn and reflecting a decrease of 30% from the same quarter of 2013. It was followed by gold bar and coin investments with 275.3 tons (\$11.4bn) and Central Banks' net purchases with 117.8 tons (\$4.9bn). Central Banks continued to be net purchasers of gold for the 14th consecutive quarter. In parallel, global gold supply increased by 10% in the second quarter of 2014 to 1,078 tons, of which mine production accounted for 71% of the total. The Bloomberg Precious Metals Total Return Sub-Index declined by 3.1% in July and improved by 6.1% in the first seven months of 2014, while the Gold Sub-Index fell by 3.1% last month and rose by 6.5% from end-2013. Also, the Bloomberg Silver Total Return Sub-Index dropped by 3.1% in July and increased by 4.8% in the first seven months.

Source: World Gold Council, Bloomberg Indexes

Diamond Prices vs. U.S. Inflation Rate  
(Annual Percentage Change)



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross 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								
<b>Africa</b>													
Algeria	-	-	-	-	BB	-1.9	9.7	1.5	9.4	1.1	-	0.5	-
	-	-	-	-	Stable								
Angola	BB-	Ba2	BB-	-	BB	-2.0	29.2	9.4	-	1.9	79.0	2.2	-1.4
	Stable	Stable	Stable	-	Stable								
Egypt	B-	Caa1	B-	B-	CCC	-11.1	91.3	16.4	127.5	7.5	286.8	-1.3	1.3
	Stable	Negative	Stable	Stable	Stable								
Ethiopia	B	B1	B	-	CCC	-3.0	23.5	21.1	116.3	-	-	-5.4	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B	B2	B	-	B	-7.5	66.5	32.3	73.4	3.4	239.1	-10.6	7.5
	Negative	Negative	Negative	-	Stable								
Ivory Coast	-	B1	B	-	B	-2.8	40.4	15.8	62.7	6.3	-	-2.2	2.9
	-	Positive	Positive	-	Stable								
Libya	-	-	B	-	B	-30.4	1.6	9.5	10.9	3.4	-	-27.7	-
	-	-	Stable	-	Stable								
Dem Rep Congo	B-	B3	-	-	-	-2.1	23.4	12.3	45.1	1.4	5.4	-7.9	6.9
	Stable	Stable	-	-	-								
Morocco	BBB-	Ba1	BBB-	-	B	-4.9	62.7	31.5	115.4	17.2	270.2	-6.6	2.9
	Stable	Negative	Stable	-	Stable								
Nigeria	BB-	Ba3	BB-	-	B	-1.8	2.0	3.2	42.0	0.3	34.3	4.9	2.7
	Negative	Stable	Stable	-	Stable								
Sudan	-	-	-	-	C	-1.3	89.3	74.0	-	-	-	-8.2	-
	-	-	-	-	Stable								
Tunisia	-	Ba3	BB-	-	CCC	-6.8	50.9	59.1	127.6	10.9	360.6	-6.7	3.0
	-	Negative	Negative	-	Stable								
Burkina Faso	B	-	-	-	-	-3.9	32.1	25.9	143.5	-	-	-7.3	0.4
	Stable	-	-	-	-								
Rwanda	B	-	B	-	-	-3.1	28.8	21.5	253.7	-	153.6	-11.5	3.5
	Stable	-	Positive	-	-								
<b>Middle East</b>													
Bahrain	BBB	Baa2	BBB	BBB	BB	-4.3	45.8	134.4	423.5	16.6	506.6	10.4	0.2
	Stable	Negative	Stable	Stable	Stable								
Iran	-	-	-	B	CCC	-2.5	10.8	1.8	13.9	1.3	15.4	5.2	-
	-	-	-	Stable	Stable								
Iraq	-	-	-	-	CCC	-2.0	16.3	10.7	69.5	-	-	1.0	-
	-	-	-	-	Stable								
Jordan	BB-	B1	-	BB-	CCC	-8.3	91.3	26.0	154.2	14.9	225.4	-12.9	6.3
	Negative	Stable	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	25.2	2.4	20.4	25.5	7.0	108.4	37.4	-4.7
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B1	B	B	CCC	-11.5	147.6	179.6	162.8	16.4	126.8	-15.8	6.0
	Stable	Negative	Negative	Stable	Stable								
Oman	A	A1	-	A	A	0.6	8.0	12.0	25.0	3.8	105.3	7.8	0.6
	Stable	Stable	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	7.7	25.7	75.6	123.9	14.3	477.0	25.4	-0.4
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA	AA-	A	7.1	2.6	11.8	24.3	1.9	11.4	15.8	0.6
	Positive	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-12.0	65.0	27.4	-	-	-	-3.7	-
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	BB	7.9	12.3	38.0	38.0	4.0	330.2	13.3	2.1
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.7	51.4	15.0	51.8	-	-	-1.5	-
	-	-	-	-	Stable								



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross 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								
<b>Asia</b>													
Armenia	-	Ba2	BB-	-	-	-2.3	42.1	77.0	109.2	17.9	543.0	-7.2	4.0
	-	Stable	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-2.1	27.2	7.9	29.8	1.5	21.1	2.2	1.0
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-4.5	67.8	21.3	83.6	5.2	188.9	-2.1	1.2
	Negative	Stable	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	4.2	13.3	70.7	131.2	13.7	544.2	1.9	5.6
	Stable	Positive	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BB	-2.6	17.6	89.0	131.2	23.2	272.4	-0.4	3.0
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	B	-2.9	39.7	66.5	153.9	20.0	257.6	-1.7	1.4
	Stable	Negative	Stable	-	Stable								
Russia	BBB-	Baa1	BBB	-	BBB	-0.5	11.6	36.7	109.4	15.0	134.9	3.0	-0.9
	Negative	Negative	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-2.0	35.9	47.2	107.5	25.1	343.0	-6.3	1.3
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-5.2	48.3	85.4	138.4	20.5	957.4	-6.7	2.2
	Negative	Negative	-	-	Stable								

Sources: International Monetary Fund; Economist Intelligence Unit; Institute of International Finance; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2014



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	30-July-14	No change	17-Sept-14
Eurozone	Refi Rate	0.15	07-Aug-14	No change	04-Sept-14
UK	Bank Rate	0.50	07-Aug-14	No change	04-Sept-14
Japan	O/N Call Rate	0-0.10	08-Aug-14	No change	04-Sept-14
Australia	Cash Rate	2.50	05-Aug-14	No change	02-Sept-14
New Zealand	Cash Rate	3.50	24-July-14	Raise 25bps	11-Sept-14
Switzerland	3 month Libor target	0.00-0.25	19-June-14	No change	18-Sept-14
Canada	Overnight rate	1.00	16-July-14	No change	03-Sept-14
<b>Emerging Markets</b>					
China	One-year lending rate	6.00	06-July-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	30-July-14	No change	17-Sept-14
Taiwan	Discount Rate	1.875	26-June-14	No change	25-Sept-14
South Korea	Base Rate	2.25	14-Aug-14	Cut 25bps	12-Sept-14
Malaysia	O/N Policy Rate	3.25	10-July-14	Raise 25bps	18-Sept-14
Thailand	1D Repo	2.00	06-Aug-14	No change	17-Sept-14
India	Reverse repo rate	8.00	05-Aug-14	No change	30-Sept-14
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	0.25	16-June-09	Cut 25bps	N/A
Egypt	Overnight Deposit	9.25	20-July-14	Raise 100bps	N/A
Turkey	Base Rate	8.25	17-July-14	Cut 50bps	27-Aug-14
South Africa	Repo rate	5.75	16-July-14	Raise 25bps	17-Sept-14
Kenya	Central Bank Rate	8.50	08-July-14	No change	01-Sept-14
Nigeria	Monetary Policy Rate	12.00	22-July-14	No change	22-Sept-14
Ghana	Prime Rate	19.00	07-July-14	Raise 100bps	14-Sept-14
Angola	Base rate	8.75	28-July-14	Cut 50bps	N/A
Mexico	Target Rate	3.00	11-July-14	No change	05-Sept-14
Brazil	Selic Rate	11.00	16-July-14	No change	03-Sept-14
Armenia	Refi Rate	6.75	12-Aug-14	Cut 25bps	N/A
Romania	Policy Rate	3.25	05-Aug-14	Cut 25bps	N/A
Bulgaria	Base Interest	0.04	01-Aug-14	Raise 1bps	N/A
Kazakhstan	Refi Rate	5.50	04-Jan-13	No change	N/A
Ukraine	Discount Rate	12.5	17-July-14	Raise 300bps	N/A
Russia	Refi Rate	8.25	13-Dec-13	No change	N/A



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