Issue 367
September 11, 2014

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Reinsurance sector has negative outlook

Fitch Ratings maintained its negative outlook on the global reinsurance sector, as intense market competition and subdued demand from reinsurance buyers have resulted in lower prices and weakening terms and conditions. It expected prices to continue to fall in 2015 due to the high level of surplus capital held by reinsurers, and for terms and conditions to weaken across a wider range of business lines. It anticipated that price adequacy would decline in 2015, but it noted that rates of return would remain above the reinsurers' cost of capital. It forecast pressure on earnings to increase across the sector as the drop in prices in property business will be channeled to other lines. Further, Fitch indicated that the persistence of low investment yields increases the risk of adverse investor behavior as both reinsurers and investors seek higher returns. It considered that alternative reinsurance and changes in reinsurance purchasing would have long-term implications for the sector and that a significant portion of capital-market funds would remain in the sector. However, it considered that most reinsurers would be able to maintain adequate profitability and strong capitalization. Fitch projected non-life net written premiums by major global non-life reinsurers to rise from $104bn in 2013 to $107.1bn in 2014 and $109.2bn in 2015. It expected catastrophe losses to increase from $3.5bn in 2013 to $7bn in 2014 and $11.7bn in 2015. It forecast the combined ratio at major non-life reinsurers at 89% in 2014 and at 95.7% in 2015 compared to a ratio of 85.5% last year.
Source: Fitch Ratings

ETFs and ETPs assets at $2.63 trillion at end-July 2014

Assets of global Exchange Traded Funds (ETFs) and Exchange Traded Products (ETPs) reached a record high of $2,627bn at the end of July 2014, constituting an increase of 9.5% from $2,398bn at end-2013. ETFs are open-ended index-based equity funds. ETFs and ETPs attracted $33.8bn in net inflows in July 2014 that included $27.7bn in equity ETFs and ETPs, $3.2bn in fixed income and $1.7bn in commodity ETFs and ETPs. Global ETF assets stood at $2,470bn, while those of ETPs totaled $157bn at end-July 2014. Also, ETF assets grew by 9.6%, while those of ETPs rose by 9% from end-2013. The U.S. ETF and ETP industry had assets of $1,846bn and accounted for 70.3% of total assets invested in both ETFs and ETPs worldwide, followed by the European industry with $467bn (17.8%), Asia-Pacific excluding Japan with $103.3bn (3.9%), Japanese ETFs and ETPs with $91.6bn (3.5%), the Canadian industry with $66bn (2.5%), and Latin American ETFs and ETPs with $9bn (0.3%). The U.S. ETF industry represented 71% of global ETFs, followed by European ETFs with 18%, Asia-Pacific ex-Japan with 4.2% and the Japanese ETF industry with 3.7% of the total. Further, the number of ETFs and ETPs reached 5,410 at the end of July, with ETFs accounting for 71% of the total.
Source: ETFGI, Byblos Research

EMERGING MARKETS

Fixed income trading volume up 5% year-on-year to $1,668bn in second quarter of 2014

Trading in emerging markets debt instruments totaled $1,668bn in the second quarter of 2014, constituting a rise of 5% from $1,589bn in the first quarter of 2014 and an increase of 5.1% from $1,587bn in the second quarter of 2013. Local-currency instruments turnover reached $1,033bn in the second quarter of 2014, up by 5% from $984bn in the first quarter of 2014 and compared to $1,036bn in the second quarter of last year. They accounted for 62% of total emerging market debt trades in the covered quarter. In parallel, sovereign and corporate Eurobonds' trading volume stood at $632bn in the second quarter of 2014, rising by 6% from $596bn in the first quarter of 2014 and by 16.2% from $544bn in the second quarter of 2013. The volume of traded corporate Eurobonds totaled $323bn in the covered quarter, while the volume of traded sovereign Eurobonds reached $291bn. Corporate Eurobonds accounted for 19% of total debt trading, while sovereign debt represented 18% of the total. The most frequently traded instruments in the second quarter of 2014 were Mexican assets with $258bn or 15.5% of the total, followed by Brazilian instruments with $248bn (14.9%), Russian debt securities with $126bn (7.6%), Indian instruments with $122bn (7.3%) and assets from Turkey with $83bn (5%).
Source: EMTA

Domestic tradable debt at $12.5 trillion at end-2013

Merrill Lynch indicated that total domestic tradable debt in emerging market reached $12.5 trillion at the end of 2013, constituting a rise of 1% from $12.3 trillion at end-2012 and a compound annual growth rate (CAGR) of 14% during the 2004-13 period. It attributed the increase in domestic debt to rising government funding needs, opportunistic issuance by corporations to fund expansion, and to elevated demand for fixed income debt. It noted that the improvement in the fundamentals of most emerging markets provided an attractive alternative to increased risk in developed markets. Domestic government debt totaled $6.7 trillion at end-2013 and represented 53% of total tradable domestic debt, while domestic corporate debt reached $5.8 trillion at the end of 2013 and represented the remaining 47% of the total. Domestic government debt posted a CAGR of 11.6% between 2004 and 2013, while domestic corporate debt grew by a CAGR of 17.4% during the covered period. Further, Asia accounts for 63% of global emerging market domestic debt, followed by Latin America (25%), Emerging Europe (7%) and the Middle East & Africa (5%). Also, China, Brazil and South Korea accounted for about 60% of global emerging market domestic debt. In parallel, foreign investors held 54.5% of Mexico's domestic debt as at the end of June 2014, the highest share among emerging economies, followed by Malaysia (46.7%), Peru (43.2%), Poland (42.7%), Indonesia (35.7%), Hungary (34.2%), Turkey (25.9%) and Russia (24.7%).
Source: Merrill Lynch

OUTLOOK

TURKEY

Banking sector highly vulnerable to sudden stop in capital inflows

Fitch Ratings anticipated that a sudden and prolonged shutdown of Turkish banks' access to foreign capital markets would put significant pressure on their foreign currency liquidity, given the rapid rise in the banks' foreign liabilities. It indicated that banks' borrowing accounted for most of the increase in the country's external debt in recent years. It said that Turkish banks' foreign borrowing almost tripled to $164bn between the end of 2008 and June 2014, while such borrowing accounted for 38% of the country's total external debt at end-June 2014 relative to a 20% share at end-2008. It noted that banks' borrowing represented 71% of the increase in Turkey's foreign debt and for all of the growth in foreign currency external debt during the covered period. Also, it pointed out that banks' short-term foreign currency borrowing has more than quadrupled over the covered period, while their long-term foreign currency debt doubled. It said that the substantial short-term component of the banks' debt raises refinancing risks. It added that the Central Bank of Turkey's (CBT) ability to make additional foreign currency available for banks, other than reserves placed under the reserve option mechanism, is limited. It considered that the CBT would face several other claims on its limited reserves in a stress scenario, including debt servicing of corporate and sovereign external debt, outflows of portfolio investments and financing of the current account deficit.

However, the agency considered that Turkish banks benefit from about $70bn in reliable foreign currency liquidity that allow them to cope with a short-lived stress. It added that this buffer represents a reasonable liquidity position compared to about $80bn to $85bn in annual external debt service requirements under the scenario of a complete market shutdown.
Source: Fitch Ratings

NIGERIA

Growth to remain below potential

The Economist Intelligence Unit projected Nigeria's real GDP growth rate to accelerate from 5.4% in 2013 to 5.6% in 2014 and 5.8% in 2015. It expected the non-hydrocarbon sector to continue to drive economic activity. But it noted that instability related to the 2015 general elections and security uncertainties would constrain overall activity during the 2014-15 period. It forecast real GDP growth to average 6.9% annually during the 2016-18 period, assuming that the 2015 elections take place with minimal disruptions. However, it considered that growth would remain below potential as the government would continue to struggle to address the poor state of infrastructure, hydrocarbon sector insecurity, militancy and corruption. Further, it projected the inflation rate to average about 10% annually between 2014 and 2015, driven by rising public spending and growing consumer demand. It forecast the fiscal deficit to widen from 1.4% of GDP in 2013 to 2% of GDP in 2014, reflecting a fall in public revenues. It expected the fiscal deficit to remain around 2% of GDP annually during the 2015-18 period. It projected the current account surplus to narrow from 4% of GDP in 2013 to 3.6% of GDP in 2014 and to reach 2.2% of GDP by 2018, as import growth would outpace oil export growth. It noted that lower global oil prices would limit exports despite an expected rise in oil production.

In parallel, the EIU anticipated that the Central Bank of Nigeria (CBN) would continue to maintain the value of the Nigerian naira within a narrow band in order to restrict imported inflation. It noted that the CBN would periodically adjust the value of the currency in order to avoid a significant decrease in foreign currency reserves. It added that the CBN would adjust the currency downward in 2015 in an attempt to reverse the ongoing erosion of foreign currency reserves. It projected the naira to average 175 per dollar in 2015 compared to an average of 158.8 in 2014 and to reach 176 against the US dollar at end-2015. It expected the country's gross official reserves to reach $35.6bn at end-2014 and $29.7bn at end-2015.
Source: Economist Intelligence Unit

AFRICA

Market conditions to become more challenging for sovereign borrowing

Business Monitor International anticipated that risks to the sovereign borrowing profile of most Sub-Saharan African (SSA) countries would increase over the coming five years. It attributed the potential rise in risks to the structural fiscal deficits in most countries, a change in the composition of borrowing, the expected rise in global interest rates, the weakening African currencies and the risk of debt rollover.

First, it expected most major economies in the region to run fiscal deficits between 2014 and 2018, given that weak administrative structures and small formal economies prevent many states from raising domestic revenues through taxation. It noted that persistent fiscal deficits reflect rising capital spending and elevated current expenditures, mainly on public-sector wages. Second, it pointed out that most SSA countries have reduced their dependence on concessional lending and have turned to the open market. It attributed the shift to the fact that such loans are often accompanied by policy conditions and that many SSA economies are near income levels that disqualify them from accessing concessional lending. It considered that the low global interest rates since the global financial crisis and high investor interest in African securities have depressed yields on US dollar-denominated bonds and have facilitated the transition to Eurobond issuance in SSA.

Third, BMI expected non-concessional borrowing costs to rise, in line with the expected increase in global interest rates, which will reverse the favorable lending environment for SSA economies. Fourth, it anticipated that Eurobond-issuing countries would face higher debt stress due to currency movements. It expected many SSA currencies to depreciate against the US dollar in coming years, which would increase their debt servicing cost. Fifth, it projected that most SSA economies would be forced to roll over their debt, given that public revenues would be insufficient to cover principal repayments at maturity. It noted that authorities would have to pay higher yields to roll over their maturing debt, which would further weigh on their public finances.
Business Monitor International

ECONOMY & TRADE

MOROCCO

Outlook revised to 'stable' on subsidy reforms

Moody's Investors Service revised the outlook on Morocco's 'Ba1' government bond rating to 'stable' from 'negative'. It maintained the local-currency bond and deposit ceiling at 'Baa1', and the foreign-currency bond and deposit ceilings at 'Baa2/P-2' and 'Ba2/NP', respectively. It attributed the outlook revision to the implementation of the government's energy subsidy reforms, which has narrowed the wide fiscal and current account deficits. It expected the subsidy bill to decrease from 4.8% of GDP in 2013 to 3.8% of GDP in 2014 and to below 3% of GDP in 2015. It noted that the cut in subsidy spending has allowed the government to increase public investment. Further, the agency indicated that the outlook revision takes into account the government's industrial growth strategy that promotes higher value-added exports in automotive, aerospace and electronics sectors. It noted that significant FDI inflows funded the development of these industries and increased the country's foreign currency reserves. In parallel, the agency pointed out that the affirmation of the ratings balances the expected peak in the country's public debt-to-GDP ratio at 66% of GDP in 2015 and the significant borrowing requirements at about 15% of GDP per year. But it noted that the country has easy access to domestic and external funding at favorable terms.

Source: Moody's Investors Service

SAUDIA ARABIA

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Saudi Arabia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'AA' with a 'stable' outlook. It also affirmed the Country Ceiling at 'AA+' and the short-term foreign currency IDR at 'F1+'. It pointed out that the ratings reflect the country's strong sovereign and external balance sheets, better economic activity relative to similarly-rated peers, continued efforts to address the high unemployment rate and the shortage of affordable housing, and improving banking soundness. Further, Fitch said that the country's net external assets of around 112% of GDP at end-2013 were the fifth highest among similarly-rated peers. It expected the current account balance to remain in surplus in coming years, which would lead to higher foreign assets. It said that the fiscal balance posted a deficit in the first half of 2014, reflecting foreign assistance and higher public spending. But it forecast the fiscal balance to post a surplus of 3.1% of GDP for the full year, driven by high hydrocarbon revenues. It added that the fiscal breakeven oil price continues to rise and projected it at $96 per barrel in 2014. It expected the non-hydrocarbon private sector to expand by about 5% annually over the medium-term, supported by the rise in public spending, by the completion of major projects and by the higher employment rate of nationals. It pointed out that the banking sector's soundness continues to improve, with a decreasing non-performing loan ratio and rising coverage and capital adequacy ratios. The agency indicated that Saudi Arabia is vulnerable to geopolitical risks, but it considered that the country would not be materially affected by regional turmoil and that its domestic political environment would remain stable.

Source : Fitch Ratings

YEMEN

Non-hydrocarbon growth to average 3.8% in 20014-15

The International Monetary Fund projected Yemen's real GDP growth at 1.9% in 2014 and 4.6% in 2015 relative to an estimated growth rate of 4.8% in 2013. It forecast the non-hydrocarbon sector to grow by 3% in 2014 and 4.5% in 2015 relative to a growth rate of 4% in 2013, and expected hydrocarbon output to contract by 8.3% in 2014 and to expand by 5.4% in 2015. It said that hydrocarbon production would fall from 365,000 barrels per day (b/d) in 2013 to 334,000 b/d in 2014 and would reach 352,000 b/d in 2015. It forecast the annual average inflation rate at 9% in 2014 and at 11.4% in 2015. It projected the fiscal deficit to narrow from 6.9% of GDP in 2013 to 5.4% of GDP in 2014 and to 5% of GDP in 2015. In parallel, the IMF approved in September 2014 a $553m Extended Fund Facility (EFF) to help maintain macroeconomic stability and to promote inclusive growth in Yemen during the 2014-17 period. It considered that the EFF would help support the authorities' program that aims to address balance-of-payments needs, close the fiscal financing gap and preserve macroeconomic stability. It said that phasing out the large and inefficient fuel subsidies is key to the reform package. It added that reforming the civil service and improving tax compliance would narrow the fiscal deficit and would free budgetary resources for needed infrastructure and social spending. It called on the Central Bank of Yemen to adjust its monetary policy to limit the impact of reforms on inflation.

Source: International Monetary Fund

ANGOLA

Current account surplus to gradually narrow in coming years

Business Monitor International projected Angola's current account surplus to narrow from an estimated 7.4% of GDP in 2014 to 1% of GDP by 2019 due to weakening oil revenues and strong growth in imports. It anticipated that elevated public investment in infrastructure, the exploitation of the country's deepwater oil and an expanding consumer base would keep demand for imports high. It forecast the annual growth in imports to remain in double-digits between 2014 and 2019. Further, it pointed out that the outlook on exports remains highly dependent on the hydrocarbon sector. It noted that infrastructure bottlenecks, red tape and an uncompetitive exchange rate have held back the diversification of the country's export base. It expected exports relative to GDP to continue to decline as new oil projects would fail to offset the declining production at maturing fields. It forecast oil production to average 1.67 million barrels per day (b/d) in 2014, significantly below the official target. It noted that Angola would not reach its 2015 target of 2 million b/d until 2019. In parallel, BMI indicated that the country's external accounts would remain vulnerable to shocks in global oil prices or disruptions to domestic production. But it noted that Angola is better placed to withstand such shocks compared to its position during the 2009 balance-of-payments crisis. It pointed out that rising pressure on the current account balance would limit the accumulation of foreign currency reserves in coming years.

Source: Business Monitor International

JORDAN

Construction and trade account for 40% of overall lending at end-June 2014

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks operating in Jordan totaled JD19.1bn or $26.9bn at end-June 2014, constituting a marginal increase of 0.6% from JD18.9bn at end-2013 and a rise of 3.7% from end-June 2013. The resident private sector accounted for 90% of total credit relative to 87% at end-June 2013; followed by the central government with 6%, down from 7% a year earlier; the non-resident private sector with 2.3% relative to 4.3% at end-June 2013; public entities with 1.8%, unchanged from a year earlier; and financial institutions with 0.04% relative to 0.07% at end-June 2013. Foreign currency lending accounted for 14% of total lending, up from 13.4% at end-June 2013. The distribution of lending by sector shows that construction represented JD4.2bn or 22% of overall lending, up from 21% at the end of June 2013; while general trade represented JD3.5bn or 18.2% of the total relative to 20.4% a year earlier. They were followed by industry with JD2.7bn, or 14.4% of overall lending; public services & utilities with JD2bn (10.5%); transportation services with JD558.2m (3%); tourism, hotels & restaurants with JD522.3m (2.7%); financial services with JD420.9m (2.2%); agriculture with JD249m (1.3%) and mining with JD171.2m (0.9%). Further, other lending accounted for JD4.7bn, or 25% of total credit, of which JD295.4m were extended to buy shares. In parallel, loans & advances totaled JD16.2bn of overall credit at end-June 2014, followed by overdrafts with JD2.5bn and discounted bills with JD262m.

Source: Central Bank of Jordan, Byblos Research

UAE

Ratings on eight banks affirmed, outlook 'stable'

Fitch Ratings affirmed the long-term Issuer Default Ratings (IDR) of Abu Dhabi Islamic Bank (ADIB) and Al Hilal Bank (AHB) at 'A+', that of Dubai Islamic Bank (DIB) and Mashreqbank (Mashreq) at 'A', the IDR of Commercial Bank of Dubai (CBD) at 'A-', and that of National Bank of Ras Al Khaimah (RAKBANK), Bank of Sharjah (BOS) and Sharjah Islamic Bank (SIB) at 'BBB+'. It noted that all banks' ratings have a 'stable' outlook. Further, the agency maintained the Viability Ratings (VR) of ADIB, DIB and BOS at 'bb', and that of Mashreq, CBD, RAKBANK and SIB at 'bb+'. It upgraded the AHB's VR from 'bb-' to 'bb', which reflects the bank's improving profitability, solid asset quality, strong reserve coverage and satisfactory capitalization. Fitch indicated that the banks' long-term ratings reflect the ability and willingness of the authorities to support the banking sector, given the government's stake in a number of banks, robust economic activity, the large sovereign wealth fund and the moderate size of the sector relative to the country's GDP. It considered the eight banks to be domestic systemically important financial institutions. Further, the agency pointed out that the banking system benefits from an improving operating environment and has sound levels of liquidity, capital and pre-impairment operating profits. But it noted that asset quality issues persist in Dubai's banks, and that high loan and deposit concentration constrain the banks' Viability Ratings.

Source: Fitch Ratings

EGYPT

Banks' exposure to government debt up 29% to $107bn at end-June, equivalent to 42% of assets

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,816.9bn, equivalent to $253.6bn at the end of June 2014, constituting an increase of 7.9% from the end of 2013 and a rise of 16.2% from end-June 2013. Lending to the private sector reached EGP543.3bn or $75.8bn, and rose by 7.6% from end-2013 and by 6.7% year-on-year. Banks' exposure to government securities totaled EGP764bn at the end of June 2014, equivalent to $106.7bn, and rose by 13.7% from end-2013 and by 28.6% from a year earlier. Banks' sovereign exposure in local currency stood at EGP678.5bn and increased by 14.8% from end-2013 and by 26.6% year-on-year; while their exposure in foreign currency reached EGP85.5bn and rose by 5.3% from end-2013 and by 48% from a year earlier. In US dollar terms, banks' sovereign exposure in local currency stood at $94.7bn, while their exposure in foreign currency reached $11.9bn. Further, total deposits reached EGP1,433.7bn or $200.2bn, constituting an increase of 8.9% from end-2013 and of 20.4% from a year earlier. Private sector deposits totaled EGP1,254.9bn or $175.2bn at end-June 2014, and rose by 9.6% from end-2013 and by 18% year-on-year. Also, private sector deposits in foreign currency grew by 5.1% year-on-year to EGP240.2bn or $33.5bn, at the end of June 2014; while those in local currency rose by 21.5% from end-June 2013 to EGP1,014.7bn or $141.7bn.

Source: Central Bank of Egypt, Byblos Research

ANGOLA

Banking sector's soundness improves, liquidity increases

The solvency ratio of banks operating in Angola reached 22.2% at the end of May 2014 relative to 19.5% at the end of 2013 and 18.3% at end-2012. Also, the sector's Tier-One capital ratio stood at 16% at end-May 2014 compared to 14.3% at end-2013 and 13.6% at end-2012. The sector's liquid assets reached 31.4% of total assets at end-May 2014 relative to 30.1% at end-2013, while they were equivalent to 38.6% of total short-term liabilities at end-May compared to 36.9% at end-2013. Further, the sector's loan-to-deposit ratio was 60.3% at end-May compared to 63.3% at end-2013 and 65.5% at end-2012. Banks' lending to the private sector accounted for 96.1% of total loans at end-May 2014 relative to 96.3% at end-2013 and 94.3% at end-2012; while their lending in foreign currency represented 35.8% of total loans at the end of May compared to 37.8% at end-2013 and 42.7% at end-2012. The sector's non-performing loans (NPLs) ratio fell to 5.6% at end-May 2014 from 9.7% at end-2013 and 6.8% at end-2012. The system's net NPLs were equivalent to 10.2% of capital at the end of May 2014, down from 22.3% at end-2013 and from 11.6% at end-2012. In parallel, the banks' return on assets reached 1.4% in 2013 relative to 1.6% in 2012, while their return on equity reached 10.9% in 2013 compared to 12.5% in 2012.

Source: International Monetary Fund

Crude oil prices to remain above $100 a barrel in second half of 2014 and into 2015

Brent oil prices are projected to rise by 1.2% in 2014 to an average of $110 a barrel, while WTI prices would increase by 4% to $102 a barrel on average this year. Brent crude oil prices have remained above the $100 per barrel level since May 2013. The latter trend is projected to continue in the second half of 2014 and into 2015, due in part to persisting geopolitical tensions. Brent crude oil prices are forecast to average $110 a barrel in the fourth quarter of 2014, constituting a decrease of 2.7% from the preceding quarter; while WTI oil prices would average $103 a barrel in the covered quarter, reflecting a decline of 1% from the previous quarter. Further, global oil consumption is expected to rise by 1.4% in 2014 to 92.16 million barrels per day (b/d), of which 48.8% would be consumed by member countries of the Organization for Economic Cooperation and Development. In parallel, the Bloomberg Petroleum Total Return Sub-Index declined by 2.1% last month and by 1.6% in the first eight months of 2014. Also, the WTI Oil Total Return Sub-Index decreased by 2% last month and increased by 2.4% in the first eight months of the year, while the Brent Oil Sub-Index dropped by 2.8% last month and by 3.9% from end-2013.
Source: Standard Chartered, Bloomberg, Byblos Research

M&A transactions up 14 times in MENA region's oil & gas sector in first eight months of 2014

The total number of completed mergers & acquisition deals that targeted the MENA region's oil & gas sector reached 7 in the first eight months of 2014, up from 6 deals in the same period last year. There were six deals executed in the GCC's oil & gas sector, of which two deals in each of the UAE and Bahrain, and one deal in each of Qatar and Kuwait; while one deal was completed in Morocco. The aggregate value of M&A transactions totaled $597.8m during the covered period, up 14.3 times from $41.7m in the first eight months of 2013. In parallel, the average value per M&A transaction rose by 12.3 times year-on-year to $85.4m in the first eight months of 2014.
Source: Zawya M&A Monitor, Byblos Research

Libya's oil output to fully recover by end-2014

Libya's crude oil production was estimated at 810,000 barrels per day in the second week of September, or at about 58% of the country's normal supply level, which reflects an increase of 1.5 times from the average output level reached at the end of August 2014. The government expects the country's crude oil output to rise to one million b/d by October 2014 and to 1.5 million b/d by the end of the year.
Source: Agence France Presse, Byblos Research

OPEC's oil output up 1% in August 2014

The Organization of the Petroleum Exporting Countries' (OPEC) crude oil production averaged 30.35 million barrels per day (b/d) in August 2014, up by 0.8% from the preceding month. Saudi Arabia produced 9.86 million b/d in August, equivalent to about 32.5% of total OPEC oil production. It was followed by Iraq with 3 million b/d (9.9%), the UAE with 2.8 million b/d and Kuwait with 2.79 million b/d (9.2% each), and Iran with 2.77 million b/d (9.1%). Overall, crude oil output from Iraq and Saudi Arabia fell last month, while production from Libya, Angola and Nigeria increased.
Source: OPEC, Byblos Research

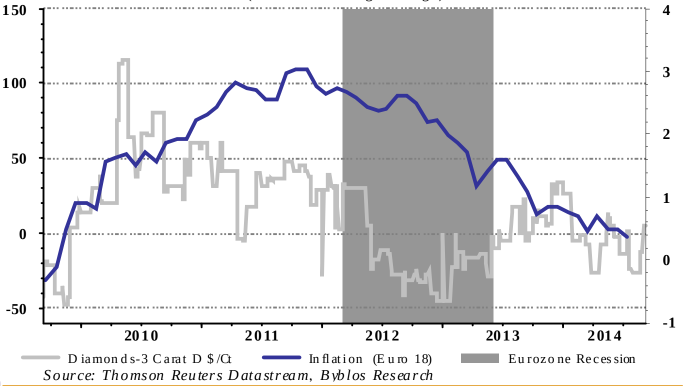
Base Metals: Global steel consumption outlook remains gloomy as Chinese economy slows down

Global steel demand is expected to remain weak in the near-term as economic growth in China, the world's largest consumer of the metal, slows down. Chinese steel exports would increasingly flow onto the global market and would in turn suppress the metal's prices. Chinese crude steel is projected to account for 49% of the world's steel output in 2014, while China is projected to consume about 44.4% of the metal's global demand. But the growth in steel consumption would accelerate in certain countries worldwide, mainly those experiencing a rapid increase in their domestic construction and automotive sectors. Steel consumption is expected to grow in the Gulf Cooperation Council (GCC) countries. Saudi Arabia's steel consumption is forecast to grow by an annual average rate of 12% during the 2013-18 period to 26.4 million tons, reflecting one of the fastest growth rates in the world. The significant increase is attributed to the ongoing large-scale government investments in residential and non-residential projects. In addition, Saudi Arabia will increasingly become dependent on steel imports in coming years. Also, the UAE's crude steel consumption would rise by an annual average rate of 3.8% in the next five years, mainly driven by several large scale projects for the World Expo in 2020. However, steel consumption in the GCC accounts for a small share of the metal's global demand. Further, Steel consumption in India, Turkey and Mexico is expected to rise in the next five years, due in part the expansion of their steel-intensive sectors.
Source: Business Monitor International, EIU

Precious Metals: Gold prices to establish support at about $1,200 an ounce in fourth quarter of 2014

Gold prices have dropped by about 3% in the first 10 days of September to reach their near-lowest level in 158 days of $1,248 a troy ounce. The drop in prices is mainly due to investors' concerns that the U.S. Federal Reserve could raise interest rates earlier than expected. Gold prices are forecast to trade between $1,193 a troy ounce and $1,425 an ounce in the fourth quarter of 2014 and to average $1,277 an ounce during the quarter. In parallel, the Bloomberg Precious Metals Total Return Sub-Index declined by 1% in August and rose by 5% in the first eight months of 2014, while the Gold Sub-Index grew by 0.4% last month and by 6.9% from end-2013. Also, the Silver Total Return Sub-Index dropped by 4.8% in August and by 0.3% in the first eight months of the year, while the Platinum Sub-Index decreased by 2.8% last month and rose by 3.6% from end-2013.
Source: Thomson Reuters, Bloomberg Indexes, Byblos Research

Diamond Prices vs. Eurozone Inflation Rate
(Annual Percentage Change)



Source: Thomson Reuters Datastream, Byblos Research

COUNTRY RISK METRICS

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

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

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	0.05	04-Sept-14	Cut 10bps	02-Oct-14
UK	Bank Rate	0.50	04-Sept-14	No change	09-Oct-14
Japan	O/N Call Rate	0-0.10	04-Sept-14	No change	07-Oct-14
Australia	Cash Rate	2.50	02-Sept-14	No change	07-Oct-14
New Zealand	Cash Rate	3.50	11-Sept-14	No change	30-Oct-14
Switzerland	3 month Libor target	0.00-0.25	19-June-14	No change	18-Sept-14
Canada	Overnight rate	1.00	03-Sept-14	No change	22-Oct-14
Emerging Markets					
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	9.489	10-Sept-14	Raise 24bps	N/A
Turkey	Base Rate	8.25	27-Aug-14	No change	18-Sept-14
South Africa	Repo rate	5.75	16-July-14	Raise 25bps	17-Sept-14
Kenya	Central Bank Rate	8.50	03-Sept-14	No change	05-Nov-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	17-Sept-14
Angola	Base rate	8.75	28-July-14	Cut 50bps	N/A
Mexico	Target Rate	3.00	05-Sept-14	No change	N/A
Brazil	Selic Rate	11.00	03-Sept-14	No change	29-Oct-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-Sept-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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293