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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Stock markets down 1% in first 11 months of 2016

Arab stock markets regressed by 0.9% and Gulf Cooperation Council (GCC) markets declined by 0.4% in the first 11 months of 2016, compared to decreases of 16% and 15.8%, respectively, in the same period of 2015. Arab and GCC stock markets improved by 3.8% and 6.6%, respectively, in November 2016 from the preceding month. In comparison, global equities rose by 4%, while emerging market equities grew by 7.8% in the first 11 months of 2016. Activity on the Egyptian Exchange increased by 63.5% in the first 11 months of 2016, while the Damascus Securities Exchange grew by 22.4%, the Casablanca Stock Exchange jumped by 19.8%, the Tunis Bourse expanded by 8.8%, the Muscat Securities Market improved by 8.1%, the Dubai Financial Market rose by 6.7%, the Beirut Stock Exchange increased by 5.8%, the Khartoum Stock Exchange grew by 4.5%, the Amman Stock Exchange appreciated by 1.6% and the Saudi Stock Exchange improved by 1.3%. In contrast, activity on the Iraq Stock Exchange dropped by 16.2%, while the Qatar Stock Exchange declined by 6.1%, the Bahrain Bourse regressed by 3.4%, the Palestine Exchange fell by 1.9% and the Boursa Kuwait contracted by 1.1%. Activity on the Abu Dhabi Securities Exchange was nearly unchanged in the covered period. In parallel, the Tehran Stock Exchange rose by 29.7% in the first 11 months of 2016.

Source: Local stock markets, Dow Jones Indices, Byblos Research

Private net wealth in Arab world at $3.3 trillion at end of June 2016

Global investment bank Credit Suisse estimated the aggregate net wealth of Arab citizens at $3,294bn at the end of June 2016, constituting a decrease of 0.7% from $3,318bn at end-June 2015 and accounting for 1.3% of global net wealth in the covered period. Credit Suisse defines a country's net wealth as the sum of its population's marketable value of financial and non-financial assets, with the latter including mainly real estate holdings, less aggregate personal debt. It excludes a country's stock of human capital as well as its stock of public assets and liabilities, such as the public debt. Arab nationals' aggregate net wealth included $1,492bn in financial wealth, $2,378bn in non-financial wealth and $576bn in personal debt at the end of June 2016. Citizens of Saudi Arabia accumulated the most wealth in the Arab world at $725.2bn as at end-June 2016, followed by those of the UAE ($596.7bn) and of Egypt ($350.5bn). In contrast, citizens of Djibouti and Mauritania had $2.2bn and $3.8bn in net wealth, respectively, as at end-June 2016, the lowest in the Arab world. In parallel, Qatar has the highest net wealth per adult among Arab countries at $161,666 as at end-June 2016, followed by the UAE ($151,098) and Kuwait ($119,038); while Mauritania ($1,949), Syria ($1,846) and Sudan ($1,070) have the lowest net wealth per adult in the Arab world.

Source: Credit Suisse, Byblos Research

M&A deals down 20% to $5bn in third quarter of 2016

Figures released by EY indicate that the aggregate value of announced merger & acquisition (M&A) deals in the Middle East & North Africa (MENA) region reached $5bn for 74 recorded deals in the third quarter of 2016, constituting a decrease of nearly 20% from $6bn for 98 deals in the third quarter of 2015. Countries of the Gulf Cooperation Council accounted for 92% of total deal value and 77% of aggregate number of deals in the covered quarter. The survey indicated that inbound M&A deals decreased by 42% year-on-year in the third quarter of 2016, outbound activity regressed by 24% and domestic deals decreased by 10% from the same quarter last year. It added that media & entertainment, real estate and airlines were the top three target sectors in terms of deal value in the third quarter of 2016. EY said that the low oil price environment and the geopolitical risks in the MENA region are affecting corporates' confidence and, in turn, are reducing their appetite for M&A deals. It noted that 21% of MENA executives expect their firm to actively pursue an M&A deal in the next 12 months, relative to 57% of respondents worldwide who have similar expectations. However, 67% of MENA executives said that they have more than five M&A deals in the pipeline, and that 40% of respondents expect the number of M&A deals in the pipeline to increase in the next 12 months. Also, 32% of MENA executives said that new product or service innovation is the key strategic driver for pursuing an M&A deal outside their firm's industry.

Source: EY

Digitization to raise firms' revenues by 50% in 2016-20

A PwC survey of 52 leading industrial companies in the Middle East & North Africa (MENA) region shows that regional companies aim to digitalize essential functions within their internal value chain and their supply chain, and to enhance their product portfolio through digital functionalities and the introduction of data-based services. PwC noted that 41% of surveyed participants from the MENA region believe that they have reached an advanced level of digitization and integration, compared to 33% of respondents globally who shared similar views. It added that 62% of respondents in the MENA expect to reach an advanced level of digitization and integration in the next five years, relative to 72% of participants worldwide. Also, it said that 89% of MENA respondents plan to invest 4% or more of their annual revenues in digital solutions, which would amount to an annual average investment of $42bn over the next five years. PwC anticipated the rise in investments to increase revenues and reduce costs over the next five years. As such, it projected companies' revenues from the digitization of products, service offerings and production processes in the MENA region to increase by 3.8% per year, or by an annual average of $16.9bn over the next five years. Overall, it estimated that these revenues would rise by 50% between 2016 and 2020. Further, it forecast the companies' cost in the MENA region to decline by 3.8% per year, or by an annual average of $17.3bn by 2020 as a result of digitization.

Source: PwC

OUTLOOK

EMERGING MARKETS

U.S. policies to have uneven impact on emerging markets

S&P Global Ratings expected that the implementation of protectionist policies of the upcoming U.S. Administration would have uneven implications on emerging market (EM) economies and on their sovereign ratings. It anticipated that the stated policies of the new U.S. Administration would potentially lead to less open trade and immigration regimes, which would place some EM sovereigns at risk. As such, it assessed the relative vulnerability of 81 EM countries and compared their dependence on U.S. economic openness through two variables that are the share of an EM economy's exports to the U.S. as a percentage of its GDP, as well as the share of worker remittances sent from the U.S. as a percentage of the EM economy's current account receipts (CARs). It anticipated most EM sovereigns to face limited risks from a more protectionist U.S. stance, as 70% of them have low exports to the U.S. relative to their GDP and 81% have low remittance inflows from the U.S. relative to their CARs.

On a regional level, S&P expected EM sovereigns in Central America & the Caribbean to be the most vulnerable to potential U.S. protectionist policies, followed by those in Asia Pacific, Sub-Saharan Africa, South America, the Middle East & North Africa (MENA) and Europe. On a country level, S&P considered that Honduras will be the most exposed EM sovereign to U.S. protectionist policies, followed by El Salvador, Nicaragua, Mexico and Guatemala. It noted that these countries benefit from large exports to the U.S and receive significant worker remittances from the U.S. It added that Kuwait would be the most exposed country in the MENA region to the economic repercussions of U.S. policies, followed by Saudi Arabia, Jordan, Bahrain and Lebanon; while it noted that Nigeria would be the most vulnerable country in Sub-Saharan Africa, followed by Angola, Cape Verde, Kenya and South Africa.

Source: S&P Global Ratings

EGYPT

Growth to remain subdued over the short term

Barclays Capital projected Egypt's real GDP growth to accelerate slightly from 3.8% in the fiscal year that ended in June 2016 to 4% in FY2016/17. It noted that higher inflation rates from the depreciation of the Egyptian pound, the introduction of the value-added tax and the increase in energy prices have weighed on private consumption since June 2016, while it anticipated fiscal consolidation measures to constrain public investment and consumption. As such, it estimated that real GDP growth would remain weak in the first half of FY2016/17, but it expected it to accelerate slightly in the second half of the current fiscal year. It anticipated the liberalization of the exchange rate and the removal of the remaining capital restrictions to gradually improve the country's external competitiveness and support investment at a later stage. It forecast Egypt's real GDP growth to accelerate to 4.4% in FY2017/18 in case net exports pick up and private investment improves. Further, it expected the inflation rate to reach about 21% in June 2017, and to gradually regress from October 2017 onwards.

In parallel, Barclays Capital forecast Egypt's current account deficit to narrow from 5.5% of GDP in FY2015/16 to 4.9% of GDP in FY2016/17. It noted that reduced remittance inflows, subdued tourism receipts and limited revenues from the Suez Canal would keep the deficit around 5% of GDP in the current fiscal year. It expected the deficit to narrow slightly to 4.8% of GDP in FY2017/18 in case the Al Zohr gas field starts operations. Further, it expected foreign currency reserves to increase from $15bn in FY2015/16 to $23bn in FY2016/17, supported by funding from bilateral and multilateral sources, as well as by a slow recovery in portfolio inflows and FDI. It estimated Egypt's external financing needs at about $20bn in FY2016/17.

Further, Barclays Capital projected Egypt's fiscal deficit to narrow from 12% of GDP in FY2015/16 to 10.4% of GDP in FY2016/17 as a result of the ongoing fiscal consolidation. It forecast the public debt level to rise from 94% of GDP at end-June 2016 to 96.1% of GDP at end-June 2017.

Source: Barclays Capital

SAUDI ARABIA

Non-oil growth at 0.7% in 2016 and 1% in 2017

Jadwa Investment projected Saudi Arabia's real GDP growth to decelerate from 3.5% in 2015 to 1.1% in 2016 and 0.6% in 2017 due to slower activity in the hydrocarbon and non-hydrocarbon sectors. It forecast hydrocarbon real GDP growth at 2.1% in 2016 and 0.6% in 2017 due to low oil prices and a marginal rise of 1% in crude oil production during the 2016-17 period. It anticipated non-hydrocarbon private sector activity at 0.7% in 2016, as reduced government spending has negatively affected business activity. But it expected non-hydrocarbon growth to reach 1% in 2017, as further easing in credit conditions and more clarity regarding the reform plans would support business sentiment. It noted that the inflation rate has been on a decelerating trend so far in 2016 despite the cut in energy subsidies, which reflects a slowdown in consumption. It projected the inflation rate to average 3.7% in 2016 and 2% in 2017.

In parallel, Jadwa Investment forecast the fiscal deficit to narrow from 15% of GDP in 2015 to 11.2% of GDP in 2016, reflecting reduced public spending and higher public revenues. It pointed out that authorities have financed the deficit through drawing down the stock of foreign assets at the Saudi Arabia Monetary Agency (SAMA) and via local and foreign debt issuances. It forecast SAMA's foreign reserves to decline from $616bn at the end of 2015 to $523bn at end-2016 and $460bn at end-2017. It expected the start of an international sovereign bond issuance program in October 2016 to ease pressure on the Kingdom's foreign currency reserves and to reduce liquidity pressures in the banking system. It indicated that the country's solid credit profile and ample reserves, along with low global interest rates, have resulted in an attractive cost of financing for the recent issuance. As such, it anticipated the government to be able to afford fiscal expenditures for a longer period of time as it continues to tap this large borrowing capacity. Further, it considered that downside risks to Saudi Arabia's outlook include concerns about global economic and political risks, a prolonged period of low oil prices, tightening of global financing conditions, delays in the implementation of planned reforms, and further fiscal consolidation measures.

Source: Jadwa Investment

EMERGING MARKETS

Outcome of U.S. presidential elections trigger portfolio outflows of $24bn from EMs

The Institute of International Finance indicated that non-resident portfolio outflows from emerging markets (EMs) reached $24.2bn in November 2016 relative to outflows of $1.6bn in October. It said that EM portfolio outflows in November consisted of $16.1bn in net debt outflows and $8.1bn in equity outflows. It noted that the monthly non-resident portfolio outflows from EMs were the fifth highest since 2005 and the highest since June 2013, when the U.S. Federal Reserve announced that it will reduce its quantitative easing program. It indicated that all EM regions posted non-resident portfolio outflows in November 2016, with outflows from Emerging Asia reaching $15.9bn, followed by Emerging Europe ($3.9bn), Latin America ($2.4bn) and the Middle East & Africa ($2.1bn). The IIF attributed the month-on-month rise in outflows from EMs to the unexpected victory of Mr. Donald Trump in the U.S. presidential elections, which added to the pressure on EM assets from the expected increase in U.S. interest rates in December. It estimated that non-residents withdrew nearly $14bn from EM economies since election day in November. It noted that the trade policies of the upcoming U.S. Administration, which favors a stronger US dollar, higher bond yields and higher prices of shares in U.S.-focused companies, have weighed on EM assets.

Source: Institute of International Finance

JORDAN

Ratings affirmed, outlook 'stable'

Capital Intelligence Ratings (CI) affirmed Jordan's long-term foreign currency sovereign rating at 'BB-' and its long-term local currency sovereign rating at 'BB', with a 'stable' outlook. It said that the affirmation of the ratings reflects the country's capacity to absorb economic shocks in the context of satisfactory levels of foreign currency reserves and sustained low global oil prices, as well as its commitment to structural reforms. It noted that risks to the outlook are to the downside amid an uncertain geopolitical environment, the influx of Syrian refugees that is aggravating socioeconomic imbalances, and security concerns from the conflict in Iraq. Also, it pointed out that Jordan's external liquidity is adequate amid the low oil price environment and continued support from international donors. It added that foreign currency reserves decreased from $14.2bn at end-2015 to $12.6bn at the end of September 2016, covering about seven months of imports. It projected the current account deficit to remain wide, but to narrow from 9.2% of GDP in 2015 to 8.6% of GDP in 2016. It noted that Jordan's external vulnerabilities are high, but it considered that the recent financial support from the IMF would help alleviate any immediate pressure on foreign currency reserves and the exchange rate. Further, the agency forecast the budget deficit, including grants, to average 3% of GDP in the 2017-18 period, nearly unchanged from its 2016 estimate, in case authorities continue with fiscal consolidation. It added that public finances are the major constraint to the ratings, given the high public debt level of more than 95% of GDP in the first nine months of 2016 and the elevated financing requirements of 30% of GDP in 2016.

Source: Capital Intelligence Ratings

EGYPT

Upgrading the business environment is key to attracting investments

Research and analytics provider IHS Markit considered that improving Egypt's business sentiment and the domestic operating environment has become critical for Egyptian authorities, as support from Saudi Arabia has diminished following disagreements over domestic and regional policies between the two countries. It said that authorities have initiated measures to encourage business investment, including the settlement of arbitration cases between the government and private sector companies, floating the Egyptian pound, reducing the civil service bureaucracy and cutting fuel subsidies. It considered that a transparent dispute resolution mechanism is essential, as Egypt seeks new sources of foreign currency, investment and energy security. It noted that the government has settled at least 18 out of 30 arbitration and investment disputes since January 2016. However, it pointed out that authorities need to accelerate their efforts to attract investments in the energy, agriculture and transportation sectors, as well as in the manufacturing industry. It said that Egypt's energy sector faces challenges, such as the conditions of existing feed-in tariffs that resulted in the withdrawal of 19 foreign and domestic companies from solar and wind plant electricity production projects since 2014. It added that another challenge would be the $3.58bn in overdue payments to international oil companies, which authorities need to address. In addition, it said that a prolonged period of political and security stability is necessary to attract FDI. It considered that the expected sale of government stakes in banks and energy companies in 2017 that are estimated at about $10bn would test the government's ability to establish and protect the rights of private businesses in the country.

Source: IHS Markit

NIGERIA

Oil & gas sector continues to face constraints

Fitch Ratings indicated that security issues and low global oil prices continue to weigh on Nigeria's oil & gas sector. It said that Nigeria's oil production decreased by 25% so far in 2016 due to security issues and the closure of several export pipelines. It noted that a recovery in oil production is contingent on the resolution of these security concerns and of infrastructure constrains. Further, it pointed out that Nigerian oil & gas companies would continue to be exposed to fluctuations in oil prices, as long as the country's domestic refining capacity and natural gas capabilities remain under-developed. In parallel, the agency welcomed the country's recently approved 'Seven Big Wins' program, which promotes oil sector regulation, upstream and downstream projects, transparency, corporate governance, and energy affordability. Also, it said that authorities settled $5bn to international oil companies to cover the latters' exploration and production costs since 2010, which constitutes another positive signal for the oil & gas sector. However, it noted that authorities have yet to finalize the long-overdue Petroleum Industry Bill, and that the recent rebel activity in the Niger Delta is delaying the bill's endorsement. It considered that the proposed de-consolidation and partial privatization of the Nigerian National Petroleum Company would promote investment and, in turn, benefit the oil sector.

Source: Fitch Ratings

EMERGING MARKETS

Key emerging markets to generate two-thirds of new global retail banking revenues

Global management consulting firm Oliver Wyman anticipated banking sectors in 12 key emerging markets (EM12) to account for two-thirds of the growth in global retail banking revenues over the next five years. It said that the EM12 consist of Brazil, Chile, China, Colombia, India, Indonesia, Malaysia, Mexico, Saudi Arabia, South Africa, Thailand and Turkey, and account for more than 80% of EM retail revenues. It noted that the EM12 have greater expansion opportunities and more profitable business models than developed markets. It forecast retail banking revenues in the EM12 to grow by more than $450bn over the next five years, as it expected banks in the EM12 to extend financial services to about 340 million new customers. It considered that banks in the EM12 would continue to drive the global growth in retail revenues, even though it expected the growth in their retail revenues to decelerate from 14% during the 2011-15 period to 9% between 2016 and 2020. It attributed the deceleration to a slowdown in revenue growth in China, Brazil, Mexico, Thailand and Saudi Arabia. It noted that key opportunities include the sustainable growth in retail credit in EMs, the development of banking strategies that are affordable to the banks' target client segments and are profitable for banks, the untapped opportunities in small- and medium-sized enterprises, as well as the adoption of digital channels, products and business models.

Source: Oliver Wyman

AFRICA

Impact of stronger US dollar to vary across Africa

Citi anticipated that a stronger US dollar would have diverse implications on currencies in African economies. First, it expected African currencies that are pegged to the euro to be negatively affected by the strengthening of the US dollar. It projected the CFA franc to weaken and to trade at CFA655 against the dollar in the first half of 2017 relative to about CFA619 per dollar currently, in case the US dollar reaches parity against the euro during the same period. Also, it said that currencies, such as the Mauritian rupee and the Moroccan dirham would weaken because the euro has a significant weight in their basket of currencies that is used to determine the local exchange rate. Second, it said that currencies that have reacted to the strengthening of the US dollar in 2015 or to changes in commodity prices since 2014, include the Algerian dinar, the Nigerian naira and the Angolan kwanza, among others. It said that the response of these currencies to a stronger US dollar would continue to have a political element and would depend on the local authorities' policy response. Third, it pointed out that countries with free floating currencies, such as Ghana, could be vulnerable to further depreciation in case the US dollar continues to strengthen due to existing fiscal and external imbalances. It noted that authorities in these countries have allowed a substantial currency adjustment, have significantly tightened monetary policy, and introduced more informal constraints on the operations of the local currency markets, which have supported the stability of their currencies. But it said that their efforts failed to address the prevailing fiscal and external imbalances.

Source: Citi

JORDAN

Resident private sector lending up 7.7% in first nine months of 2016

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD48bn or $67.7bn at the end of September 2016, constituting a rise of 1.8% from the end of 2015 and an increase of 2.3% from end-September 2015. Resident private sector claims grew by 7.7% from end-2015 to JD20.1bn, while credit facilities to the non-resident private sector rose by 1.1% to JD482.2m, leading to an increase of 7.6% in overall private sector credit facilities in the first nine months of 2016. Lending to the resident private sector accounted for 41.9% of total assets at end-September 2016 compared to 39.2% a year earlier. In parallel, resident private sector deposits reached JD26.5bn at the end of September 2016, up by 2.8% from JD25.8bn at end-2015 and by 5.1% from JD25.2bn a year earlier; while non-resident private sector deposits grew by a marginal 0.8% from end-2015 and declined by 3.3% from end-September 2015 to JD3.7bn. The government's deposits totaled JD1.2bn, down by 4.7% from end-2015, while those of public non-financial institutions increased by 20.8% to JD425.6m. In parallel, claims on the public sector accounted for 25.1% of total assets at end-September 2016, compared to 24.7% a year earlier. Further, the banks' reserves at the Central Bank of Jordan totaled JD5.74bn or $8.1bn, down by 22% from JD7.4bn at end-2015; while capital accounts and allowances dropped by 2.5% from end-2015 to JD7.1bn. Also, deposits with foreign banks reached JD3.5bn, or $4.9bn, at the end of September 2016, up by 7.4% from end-2015; while the sector's foreign liabilities increased by 2% from end-2015 to JD6.8bn.

Source: Central Bank of Jordan, Byblos Research

TUNISIA

'Negative' outlook on ratings of four banks

Moody's Investors Service affirmed at 'Ba3' the local currency deposit rating of Arab Tunisian Bank, Banque de Tunisie (BdT) and Banque Internationale Arabe de Tunisie (BIAT), and at 'B1' that of Amen Bank and Société Tunisienne de Banque (STB). Also, it maintained at 'B1' the five banks' long-term foreign currency deposit ratings. The agency revised the outlook from 'stable' to 'negative' on the long-term ratings of Amen Bank, BIAT, BdT and STB due to the Tunisian government's weakening capacity to provide support to the banks if needed. It added that the change in the banks' ratings outlook is in line with the outlook revision on Tunisia's sovereign rating. It also kept the 'stable' outlook on ATB's ratings as they do not incorporate any government support uplift, which makes them resilient to the reduction in the authorities' capacity to support banks in case of need. Further, Moody's indicated that it affirmed the ratings because it expected the banks' credit profile, including the banks' asset quality and loss-absorption buffers, to stabilize at currently weak levels even though it anticipated the operating environment to remain challenging over the next 12 to 18 months. Moody's pointed out that it would downgrade all of the banks' ratings if it downgrades the sovereign.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil prices jump to six-week high following OPEC agreement to cut oil production

ICE Brent crude oil front-month prices rose by 8.8% day-to-day to close at $50.5 per barrel (p/b) on November 30, 2016, after members of the Organization of the Petroleum Exporting Countries agreed to reduce their oil production for the first time in eight years. The deal aims to reduce excessive oil inventories and to partly support prices. Oil prices continued to increase by more than 3% in intra-day trading on December 1 to a six-week high of around $52 p/b, and are expected to trade at $50 p/b to $55 p/b in the near term. However, the surge in prices is projected to be limited, as investors remain skeptical about the long-term impact of the deal and the ability of OPEC members to effectively implement the cuts as planned. Also, the recent price gains are expected to be short-lived as higher oil prices would provide U.S. shale oil producers with an incentive to increase production and, in turn, weigh on the oil market balance. Goldman Sachs forecast Brent oil prices to average $56.5 p/b in the first half of 2017, possibly rising to more than $60 p/b. However, it projected prices to retreat to under $50 p/b in the second half of 2017 due in part to increased U.S. shale oil drilling.

Source: Goldman Sachs, Bloomberg, Byblos Research

OPEC members agree to oil production cuts

Members of the Organization of Petroleum Exporting Countries (OPEC) decided at their semi-annual meeting on November 30 to reduce their aggregate production by 1.2 million barrels per day (b/d) to 32.5 million b/d, in an attempt to rebalance the global oil market. OPEC's output cut will become effective on January 1, 2017 and constitutes the first output reduction since 2008. Under the agreement, Saudi Arabia will adjust its production downwards by 486,000 b/d to 10.05 million b/d, Iraq will cut its output by 210,000 b/d to 4.3 million b/d, Iran will decrease its production by 178,000 b/d to 3.8 million b/d and the UAE will reduce its oil supply by 139,000 b/d to 2.87 million b/d, among other cuts by smaller OPEC oil producers. In parallel, OPEC demanded non-OPEC countries to curb their production by 0.6 million b/d, with Russia expected to reduce output by 300,000 b/d.

Source: Barclays Capital, Bloomberg

Middle East's investment in gold bars and coins down 86% in third quarter of 2016

The Middle East region's demand for gold bars and coins totaled 1.9 tons in the third quarter of 2016, constituting a drop of 85.5% from 13.1 tons in the same quarter of 2015. Saudi Arabia's demand for gold bars and coins was 2.4 tons in the third quarter of 2016 and represented a drop of 28.7% year-on-year. It was followed by the UAE with 1.1 tons (-40%), Egypt with 0.6 tons (-60%) and Kuwait with 0.1 tons (-20%).

Source: World Gold Council, Byblos Research

OPEC's oil output up 0.7% in October 2016

Crude oil production of the Organization of Petroleum Exporting Countries averaged 33.64 million b/d in October 2016, up by 0.7% from 33.41 million b/d in the preceding month. Saudi Arabia produced 10.53 million b/d in October, equivalent to 31.3% of OPEC's total oil output. It was followed by Iraq with 4.56 million b/d (13.6%) and Iran with 3.69 million b/d (11%).

Source: OPEC, Byblos Research

Base Metals: Steel prices to rise in 2017 supported by U.S. and Chinese demand

The LME steel billet cash price reached $312.5 per ton on November 30, 2016, constituting a rise of 58.6% from $197 per ton at end-2015, due in part to higher construction and infrastructure spending by the Chinese government so far this year. Steel prices are expected to rise further in the coming year on higher demand for the metal in the U.S., as President-elect Donald Trump plans to increase fiscal spending to rebuild the country's infrastructure. In fact, the new U.S. administration is likely to introduce a program that aims to rebuild roads, bridges, airports, hospitals and schools in the country. In parallel, global crude steel output reached 1.33 billion tons in the first 10 months of 2016, nearly unchanged from the same period of 2015. China's crude steel production totaled 673 million tons in the first 10 months, or 50.5% of global steel output. It was followed by Japan with 87.5 million tons (6.6%), India with 79.5 million tons (6%) and the U.S. with 66 million tons (4.9%). On a regional level, steel output in Asia totaled 921.1 million tons and accounted for 69.1% of global production in the covered period, followed by the European Union with 135.4 million tons (10.2%) and North America with 92.9 million tons (7%). The figures are based on data about 66 producing countries that account for 99% of global steel supply.

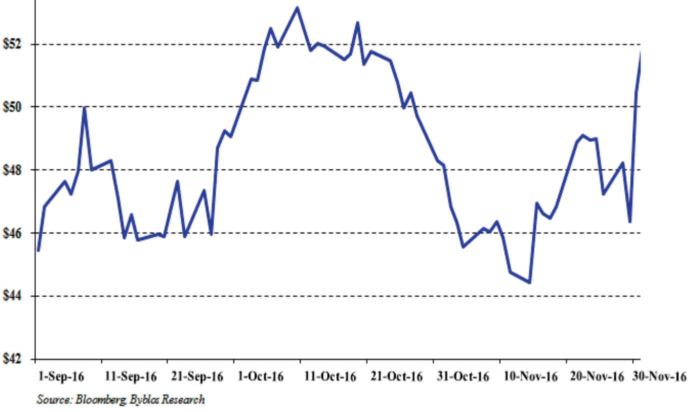
Source: World Steel Association, Byblos Research

Precious Metals: Gold prices drop amid more certainty of a U.S. interest rate hike

The gold Bullion spot price closed at a near 10-month low of $1,173 a troy ounce on November 30, 2016, down by 8.1% from end-October 2016, due in part to a stronger US dollar. The drop in prices coincided with a 3.2% rise in the trade-weighted US Dollar Index from end-October 2016. Also, the lower gold price environment reflects higher expectations of a U.S. interest rate hike in December, higher planned fiscal spending on infrastructure in the U.S., and improving sentiment for global economic growth, which implies that investors are shifting towards riskier assets such as equities. In addition, Goldman Sachs reduced its forecast for gold prices to an average $1,213 an ounce in 2017, from its previous estimate of $1,261 an ounce. Upside risks to the metal's price include political uncertainties in the European Union, with Italy conducting a referendum on constitutional reform on December 4, 2016, and presidential elections taking place in France, Germany and the Netherlands in 2017.

Source: Thomson Reuters, Goldman Sachs, Byblos Research

Brent Oil Prices
(US$ per barrel)



Source: Bloomberg, Byblos Research

COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	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 (%)
	LT Foreign currency rating												
Africa													
Algeria	- -	- -	- -	- -	BB+ Negative	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B Negative	B1 Negative	B Negative	- -	B+ Negative	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B- Stable	B3 Stable	B Stable	B- Stable	B- Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B Stable	B1 Stable	B Stable	 -	B+ Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B- Stable	B3 Stable	B Negative	- -	B+ Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	- -	Ba3 Stable	B+ Stable	- -	B+ Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	- -	- -	B Stable	- -	B- Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B- Negative	B3 Stable	- -	- -	CCC Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB- Stable	Ba1 Stable	BBB- Stable	- -	BBB Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B Stable	B1 Negative	B+ Stable	- -	BB- Negative	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	- -	- -	- -	- -	CC Negative	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	- -	Ba3 Negative	BB- Negative	- -	BB+ Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B- Stable	- -	- -	- -	B+ Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B Stable	B2 Stable	B Positive	- -	B+ Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB Stable	Ba2 Stable	BB+ Stable	BB+ Stable	BBB- Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	- -	- -	- -	BB- Stable	BB- Positive	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B- Stable	(P)Caa1 Stable	B- Negative	- -	CC+ Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB- Negative	B1 Stable	- -	BB- Stable	BB+ Stable	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	AA- Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B- Stable	B2 Negative	B- Stable	B Negative	B- Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB Negative	Baa1 Stable	- -	A- Negative	BBB Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA Stable	Aa2 Negative	AA Stable	AA- Negative	AA- Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A- Stable	A1 Stable	AA- Negative	AA- Negative	AA- Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	- -	- -	- -	- -	C Negative	-	-	36.5	-	-	-	-	0.6
UAE	- -	Aa2 Negative	- -	AA- Stable	AA- Stable	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	- -	- -	- -	- -	CCC Negative	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2

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	IHS								
Asia													
Armenia	- -	B1 Stable	B+ Stable	- -	B- Stable	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
China	AA- Stable	Aa3 Stable	A+ Stable	- -	A Stable	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
India	BBB- Stable	Baa3 Positive	BBB- Stable	- -	BBB Stable	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
Kazakhstan	BBB- Negative	Baa2 CWN***	BBB+ Stable	- -	BBB- Negative	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
Central & Eastern Europe													
Bulgaria	BBB Negative	Baa2 Stable	BBB- Stable	- -	BBB Stable	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
Romania	BBB- Stable	Baa3 Negative	BBB- Stable	- -	BBB- Positive	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
Russia	BB+ Negative	Baa3 CWN***	BBB- Negative	- -	BB+ Negative	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
Turkey	BB Negative	Ba1 Stable	BBB- Negative	BB+ Stable	BB- Negative	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
Ukraine	CCC Negative	Caa3 Negative	CCC -	- -	B- Stable	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1

**to official creditors*
*** external debt/current account receipts*
****Credit Watch Negative*
Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2016

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	02-Nov-16	No change	14-Dec-16
Eurozone	Refi Rate	0.00	20-Oct-16	No change	08-Dec-16
UK	Bank Rate	0.25	03-Nov-16	No change	15-Dec-16
Japan	O/N Call Rate	-0.10	01-Nov-16	No change	20-Dec-16
Australia	Cash Rate	1.5	01-Nov-16	No change	06-Dec-16
New Zealand	Cash Rate	1.75	09-Nov-16	Cut 25bps	08-Feb-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Sep-16	No change	15-Dec-16
Canada	Overnight rate	0.50	19-Oct-16	No change	07-Dec-16
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	02-Nov-16	No change	14-Dec-16
Taiwan	Discount Rate	1.375	29-Sep-16	No change	18-Dec-16
South Korea	Base Rate	1.25	11-Nov-16	No change	15-Dec-16
Malaysia	O/N Policy Rate	3.00	23-Nov-16	No change	19-Jan-17
Thailand	1D Repo	1.50	09-Nov-16	No change	21-Dec-16
India	Reverse repo rate	6.25	04-Oct-16	Cut 25bps	07-Dec-16
UAE	Overnight repo rate	1.25	17-Dec-15	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	N/A
Egypt	Overnight Deposit	14.75	17-Nov-16	No change	29-Dec-16
Turkey	Base Rate	8.00	24-Nov-16	Raised 50bps	20-Dec-16
South Africa	Repo rate	7.00	24-Nov-16	No change	24-Jan-17
Kenya	Central Bank Rate	10.00	28-Sep-16	No change	N/A
Nigeria	Monetary Policy Rate	14.00	22-Nov-16	No change	24-Jan-17
Ghana	Prime Rate	25.50	21-Nov-16	Cut 50bps	20-Jan-17
Angola	Base rate	16.00	30-Nov-16	No change	26-Dec-16
Mexico	Target Rate	5.25	17-Nov-16	Raised 50bps	15-Dec-16
Brazil	Selic Rate	13.75	30-Nov-16	Cut 25bps	N/A
Armenia	Refi Rate	6.50	15-Nov-16	Cut 25bps	27-Dec-16
Romania	Policy Rate	1.75	04-Nov-16	No change	06-Jan-17
Bulgaria	Base Interest	0.00	01-Nov-16	No change	01-Dec-16
Kazakhstan	Repo Rate	12.00	14-Nov-16	Cut 50bps	09-Jan-17
Ukraine	Discount Rate	14.00	27-Oct-16	Cut 100bps	08-Dec-16
Russia	Refi Rate	10.00	28-Oct-16	No change	16-Dec-16

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