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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Trading in Credit Default Swaps up 80% to $468bn in second quarter of 2018

Trading in emerging markets Credit Default Swaps (CDS) reached $468bn in the second quarter of 2018, constituting a drop of 4% from $488bn in the first quarter of 2018 and a rise of 80% from $261bn in the same quarter of 2017. Trading in EM CDS represented its second highest quarterly volume since 2009. The most frequently traded sovereign CDS contracts in the second quarter of 2018 were those of Brazil at $53bn, followed by those of Turkey at $41bn and of Mexico at $38bn. As such, traded sovereign CDS contracts on Brazil accounted for 11.3% of total trading in emerging market CDS in the covered quarter, followed by CDS contracts on Turkey (8.8%) and Mexico (8.1%). The most frequently traded corporate CDS contracts in the second quarter of 2018 were those of Brazil's Petrobras at about $1.8bn, which accounted for 0.4% of total trading in emerging markets CDS. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers, as well as from 12 major international banks and broker-dealers.

Source: EMTA

MENA

Nearly 70% of banks expect growth in trade finance activity in 2018

The 2018 ICC Global Survey on Trade Finance indicated that 42% of surveyed banks in the Middle East region increased in 2017 the value of provided traditional trade finance (TTF) instruments, such as commercial and standby letters of credits, compared to 66% of banks globally that posted an increase in TTF-related activity; while 17% of respondents in the region reported an expansion in supply chain finance (SCF) activity last year relative to 43% of banks globally. The SCF is a set of technology-based business and financing processes that link various parties in a transaction and help increase cash flow and liquidity in international trade. In contrast, 33% of participants in the Middle East reported that they registered a drop in TTF-related activity in 2017 compared to 24% of banks globally that posted such a decline, while 8% said that SCF-related activity in the region decreased last year relative to 12% of banks globally. In addition, 68% of banks in the Middle East region expected global trade finance activity to grow in 2018 compared to 73% of banks globally, while 5% of respondents in the Middle East and globally anticipated it to decline this year. Also, 79% of banks in the Middle East expected revenues from TTF instruments to grow in 2018 relative to 75% of banks globally, while 42% of participants anticipated earnings from SCF to increase this year compared to 74% of banks globally. The survey was conducted between December 2017 and February 2018, and was compiled from the responses of 251 banks in 91 countries.

Source: ICC Banking Commission

Private equity deals up 182% to $570m in first half of 2018

Figures issued by Bureau Van Dijk and Zephyr show that there were 39 private equity (PE) deals targeting companies in the Middle East & North Africa region for a total value of $569m in the first half of 2018. In comparison, there were 27 PE deals worth a total of $202m in the first half of 2017. The figures show an increase of 44.4% in the volume of deals and a surge of 181.7% in their value year-on-year in the first half of 2018. The value of PE transactions in Saudi Arabia reached $267m in the first half of the year, and accounted for 47% of the region's aggregate deal value in the covered period. Egypt followed with PE deals of $97m (17%), then Morocco with $93m (16.3%), Lebanon with $61m (10.7%), the UAE with $49m (8.6%) and Jordan with $3m (0.5%). In volume terms, the UAE had 19 PE deals in the first half of the year, followed by Egypt with eight transactions, Jordan and Morocco with three deals each, and Saudi Arabia, Lebanon and Tunisia with two transactions each. In addition, the value of PE deals targeting the construction sector reached $76m, or 13.4% of total value in the first half of 2018, followed by banks with $60m (10.5%), the education and healthcare sectors with $56m (9.8%), the wholesale and retail trade sector with $40m (7%), the insurance sector with $18m (3.2%) and the machinery, equipment, furniture & recycling sector with $2m (0.4%), while the remaining $316m in PE deals, or 55.5% of the total, targeted other services.

Source: Zephyr, Bureau Van Dijk, Byblos Research

Country risk level unchanged in second quarter of 2018

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world was stable in the second quarter of 2018, as the average score of 19 Arab economies was unchanged quarter-on-quarter at 39.2 points. A higher score represents a lower country risk level. The region's risk level was higher than the global risk level of 43.2 points in the covered quarter. It was also higher than the risk levels of North America (79.1 points), Western Europe (73 points), Central & Eastern Europe (49 points), Latin America (45.6 points), and Asia (42.3 points). In contrast, it was lower than the risk levels of the Caribbean (36.4 points), Sub-Saharan Africa (31.2 points), and Australasia (27.8 points). The average scores of GCC countries and non-GCC Arab countries were also unchanged from the preceding quarter at 58.8 points and 30.1 points, respectively. The Arab world's Political Risks score of 11.64 points was lower than the global average of 13.74 points, while its Economic Performance score of 12.74 points was below the global average of 13.43 points. Further, the region's Credit Ratings averaged 2.48 points relative to the global average of 3.06 points; while the Access to Bank Finance & Capital Markets score was 4.4 points, higher than the global average of 4.25 points. Qatar had the lowest country risk level in the Arab world and the 29th lowest globally, followed by Kuwait (33rd), the UAE (38th), Saudi Arabia (48th) and Oman (50th).

Source: Euromoney Group, Byblos Research

POLITICAL RISK OVERVIEW - July 2018

DEM REP CONGO

President Joseph Kabila announced that the country's long-delayed presidential elections will take place as scheduled in December 2018, but he did not give any indication about running for the elections as the deadline to register his candidacy approached. Major opposition parties jointly called for the cleaning of voter list, the cancelation of plans to use voting machines, as well as for confidence-building measures and the replacement of representatives from the Union for Democracy and Social Progress Party in the electoral commission council. The Movement for the Liberation of Congo opposition party named party leader Jean-Pierre Bemba as its presidential candidate, but President Kabila's ruling coalition expressed doubts about whether Bemba was legally allowed to run for the presidency. The government reshuffled command positions in the army, as it appointed General John Numbi as Inspector General of the Armed Forces and designated Major General Gabriel Amisi Kumba as Deputy Chief of Staff.

EGYPT

The Egyptian Parliament approved on July 3 a law that exempts senior military officers from prosecution for any crime committed during the transition period that followed the July 2013 military coup. The law also grants the senior military officers special ministerial privileges, such as benefits associated with the highest ministerial and diplomatic positions. An Egyptian court sentenced 75 defendants, including members of the Muslim Brotherhood, to death for participating in a demonstration in 2013 in support of deposed-President Mohamed Morsi, and referred their cases to the country's Grand Mufti for a final decision. Clashes intensified between security forces and Islamic State (IS) militants in the North Sinai province.

ETHIOPIA

Prime Minister Abiy Ahmed signed an agreement with Eritrean President Isaias Afwerki to restore ties with Eritrea, ending the 20-year conflict between the two countries. Following the agreement, Eritrea reopened its embassy in Ethiopia, while flag carrier Ethiopian Airlines resumed flights to Eritrea. Authorities also fired senior prison officials for failing to protect prisoners' rights, and released political prisoners. In addition, Parliament passed a law on July 20 that grants amnesty to former political prisoners.

IRAN

Germany, the United Kingdom, France, Russia and China expressed their commitment to the Joint Comprehensive Plan of Action, while the U.S. continued to impose sanctions against Iranian and Iran-related persons and entities. Also, the U.S. designated al-Ashtar Brigades, an Iran-backed militant group in Bahrain, as a foreign terrorist organization. President Hassan Rouhani threatened to close the Strait of Hormuz in response to threats by the U.S. to impose sanctions on Iranian oil exports. Security forces clashed with Jaish al-Adl, a Pakistan-based Sunni extremist group in Iran, near the Pakistani borders. Belgian authorities detained an Iranian diplomat for his involvement in a terrorist plot against an Iranian opposition's rally in Paris.

IRAQ

A wave of protests erupted in the country's southern provinces and spread to Baghdad between July 8 and July 17, 2018. Protestors demanded improved public services and better job opportunities. Security forces opened fire in order to disperse the protests, which resulted in casualties, while the government shut down the internet and social media platforms to disrupt the protests. Prime Minister Haider al-Abadi promised to suspend certain ministers, implement reforms, generate 10,000 jobs, and pledged a total of $2.5bn to improve services in Basra. A recount of votes began for the parliamentary elections that took place in May in specific areas in the country, and revealed discrepancies between original results and the new count in Kirkuk.

LIBYA

Field Marshal Khalifa Haftar handed back the control of the Ras Lanuf, Es Sider, Zueitina and Hariga oil terminals to the Tripoli-based National Oil Corporation (NOC), ending a three-week dispute that disrupted the country's oil industry and threatened to jeopardize political reconciliation efforts in Libya. The Tripoli-based government of National Accord dismissed anti-Haftar Defense Minister Mahdi Al-Barghathi and suspended him from the task of coordinating with the UN sanctions committee. IS militants and other armed groups conducted attacks on civilians in Southern Libya, while forces loyal to Haftar continued to fight IS militants in several Libyan cities. The NOC requested UN sanctions on 48 individuals and entities accused of selling oil illicitly in a struggle over the country's oil wealth.

SUDAN

The government extended the unilateral ceasefire in the Darfur, South Kordofan and Blue Nile states until the end of 2018. Egyptian President Abdel Fattah el-Sisi met with Sudanese President Omar Al Bashir during his two-day visit to Khartoum. During the meeting, the two presidents vowed to strengthen bilateral relations between Egypt and Sudan. The head of the Sudanese opposition group National Umma Party was denied re-entry to Egypt, where he lived in exile since 2014, following recent efforts by Egypt and Sudan to mend ties.

SYRIA

Russian-backed pro-regime forces continued their offensive in the southeastern Daraa and Quneitra provinces, forcing rebels in the region to surrender. Pro-regime forces also made advances on remaining territories held by a local group affiliated to the IS militant group in the southwestern city of Daraa. Israel claimed that it shot down a Syrian warplane that crossed into its airspace over Golan Heights, while the regime claimed that the plane had been shot while it was still in Syrian airspace. IS militants carried out multiple suicide bombings in the government-held Sweida city and nearby towns and villages, leading to 215 casualties and 180 injuries. The U.S.-backed Syrian Democratic Forces continued their campaign to recapture IS-held areas.

TURKEY

The government continued its crackdown on the Peoples' Democratic Party (HDP). It sentenced two previous HDP deputies to 15 months in prison, and launched investigations into four newly-elected HDP deputies. The government lifted the state of emergency to ease economic and political tensions, and approved a strict anti-terror law that extends the authorities' power to detain citizens. Tensions intensified between the U.S. and Turkey, as the latter confirmed that it would purchase Russian missiles by end-2019. Tensions between Syrian refugees and host communities increased in the city of Bursa, as 500 residents protested against the presence of the refugees.

YEMEN

The Saudi-led coalition resumed its airstrikes in and around the port city of Hodeida, which damaged a water facility that supplies most of the city's water. UN Special Envoy Martin Griffiths submitted a proposal to the Huthi rebels, to President Abd Rabbuh Mansur Hadi's government and to the Saudi-led coalition to avert a battle in Hodeida. The plan entails the withdrawal of Huthi rebels and UAE-led forces from the city, followed by the reopening of the Sanaa airport and the resumption of peace talks. Huthi rebels reportedly attacked two tankers in the Bab al-Mandeb strait and prompted Saudi Arabia to suspend oil shipments through the strait. Huthi rebels also claimed to have conducted a drone attack on Abu Dhabi's airport, but the UAE denied the attack. Tensions between the UAE-backed forces and the Hadi government were revived, as the commander of UAE-backed Security Belt forces threatened to attack forces loyal to President Hadi in Aden.

Source: International Crisis Group, Newswires

OUTLOOK

AFRICA

Growth outlook facing several challenges

The regional African bank Ecobank projected real GDP growth in Sub-Saharan Africa (SSA) to accelerate from 2.8% in 2017 to 3.4% in 2018, supported by stronger activity in several major economies, including Ghana, Nigeria and South Africa. It expected economic activity to vary across SSA regions this year. It forecast East Africa to post a real GDP growth rate of 6.5% in 2018, driven by improved weather conditions, by stronger activity and higher FDI inflows in Ethiopia, by higher agricultural production in Uganda, as well as by improved activity in Kenya, Rwanda and Tanzania. In contrast, it projected Central Africa to register a growth rate of 1.8% this year, reflecting the region's improving but still weak economic environment, fiscal slippages and weaker fiscal reforms amid heightened political pressures in Gabon, Chad and Cameroon. Overall, it expected the SSA region's growth to remain challenged by a subdued economic recovery in the Eurozone, persistent power supply shortages, political and security risks, volatility of the region's capital and currency markets to tighter global financial conditions, weaker growth in China, as well as fluctuations in commodity prices.

In parallel, Ecobank projected the inflation rate to slow down across most SSA regions in 2018, on the back of high base effects and improved agricultural production. Still, it expected the SSA region's inflation rate to remain elevated at 9.3% this year, mainly due to higher oil prices for the region's net oil importers with deregulated fuel pricing regimes, sustained currency weakness linked to political instability in some economies, and risk-off sentiment towards emerging markets. As such, it considered that the scope for monetary easing in the region is low, and expected monetary authorities to adopt a tight policy stance during 2018. Further, it expected the SSA economies' current account deficits to remain wide in 2018 due to the high level of infrastructure investments, FDI-related imports and imports of food and consumer goods, as well as to higher oil prices. It expected African currencies to face downside pressures from further U.S. interest rate hikes, domestic challenges in the region, as well as rising political risk premiums. Further, it anticipated capital flows to the SSA region to decline in the second half of 2018 amid increased global challenges, including growing U.S.-China trade tensions and a stronger US dollar which have weakened the appeal for SSA markets as a high-yielding destination.

Source: Ecobank

IRAQ

Higher oil prices to improve economic outlook

Fitch Ratings anticipated that higher oil prices would improve Iraq's economy, public finances and external balances during the 2018-19 period. It projected real GDP to grow by 1% in 2018 and 3.3% in 2019, relative to a contraction of 1.3% in 2017. Further, it forecast the fiscal balance to shift from a deficit of 2.3% of GDP in 2017 to surpluses of 3% of GDP in 2018 and 1% of GDP in 2019. It noted that the government's finances are highly reliant on hydrocarbon receipts, which generate between 85% and 90% of public revenues. It estimated that an increase of $1 p/b in oil prices generates $1.2bn in additional revenues to the government, assuming stable export volumes. It added that its fiscal forecast does not include a full oil-sharing agreement with the Kurdistan Regional Government. It anticipated Iraq's fiscal balance to shift to a deficit of 1.9% of GDP in 2020 in case oil prices gradually decrease from $70 p/b in 2018 to $65 p/b in 2019 and $57 p/b in 2020.

In addition, Fitch expected the government's debt level to decline from 60.1% of GDP at the end of 2017 to 50% of GDP at end-2018 and 48.7% of GDP at end-2019, in case of budget surpluses and higher nominal GDP. It noted that the government is planning to repay some Treasury bills and does not intend to issue more Eurobonds. However, it forecast the debt level to increase to 50.4% of GDP at end-2020 when the fiscal balance shifts to a deficit and oil prices decline. It expected foreign currency reserves to grow from $48.9bn at end-2017 to $53.7bn at end-2018 and $54.8bn at end-2019. In parallel, it indicated that Iraq's three-year Stand by Arrangement with the International Monetary Fund is on hold due to differences about the 2018 budget, as weak governance and political tensions in Iraq are constraining the implementation of fiscal and structural reforms. It noted that it is unclear whether Iraq still wants to have the arrangement with the IMF. But it considered that the IMF is open to negotiations with the upcoming government, with a focus on a supplementary 2018 budget or the 2019 budget, which could incorporate more realistic oil prices and additional reconstruction costs.

Source: Fitch Ratings

SAUDI ARABIA

Fiscal deficit to narrow to 3.7% of GDP in 2018

Global investment bank JPMorgan Chase projected Saudi Arabia's fiscal deficit to narrow from 8.9% of GDP in 2017 to 3.7% of GDP in 2018 based on its Brent oil price assumption of $69.5 p/b this year, which is well below the government's deficit target of 7% of GDP. It indicated that the Kingdom's fiscal deficit narrowed significantly from SAR46.5bn or 7.5% of GDP in the second quarter of 2017, to SAR7.4bn or 1% of GDP in the second quarter of 2018, on the back of higher oil receipts. However, it said that the non-oil fiscal deficit widened from 33% of non-hydrocarbon GDP in the second quarter of 2017 to 40% of non-oil GDP in the second quarter of 2018, despite the introduction of the value-added tax and other fees. It added that authorities have raised about $26bn in financing so far this year, including a $6bn syndicated loan, $11bn in external debt issuance and about $9bn in domestic issues. But it noted that higher-than-anticipated expenditures would constitute risks to the fiscal outlook amid subdued economic activity.

In parallel, the investment bank forecast Saudi Arabia's public debt level at 18.5% of GDP at end-2018, relative to 17.2% of GDP at end-2017. It said that authorities have planned to finance 40% of the 2018 budget deficit through drawing down foreign currency reserves at the Saudi Arabia Monetary Authority (SAMA). However, it noted that authorities have changed their strategy due to reduced financing requirements, and that they no longer intend to tap foreign currency reserves this year. As such, it attributed the decline in the current account and reserve account at SAMA to transfers to other entities such as the Public Investment Fund. Overall, it forecast foreign currency reserves at SAMA to rise from $496bn at the end of 2017 to $508bn at end-2018, due to reduced fiscal pressures.

Source: JPMorgan Chase

BAHRAIN

Sovereign ratings downgraded on liquidity risks

Moody's Investors Service downgraded Bahrain's long-term government issuer ratings from 'B1' to 'B2', with a 'negative' outlook. It indicated that the downgrade reflects heightened external and government liquidity risks, which are constraining access to market financing. It expected Bahrain's external financing needs to reach more than 30% of GDP during the 2018-20 period, while it projected foreign currency reserves to be at very low levels. Also, it forecast the country's public debt level to rise from just below 90% of GDP at end-2017 to 100% of GDP in coming years, despite higher oil prices and receipts. It added that the government will need to finance $2.4bn, or 6.5% of GDP, in external debt in the remainder of 2018, as well as $3bn, or 7.5% of GDP, in 2019. Further, it anticipated Bahrain's foreign currency reserves to decline by $2.5bn this year and by $3.5bn next year in the absence of new external debt issuance and amid the sovereign's weakening ability to access international capital markets. In parallel, it indicated that Bahraini authorities have not yet announced any new significant policy measures to address the rising liquidity pressure and the weakening fiscal and external credit metrics. In contrast, Moody's pointed out that the ratings are supported by high income per-capita levels, a relatively diversified economy, a net international investment position, as well as the GCC's willingness to provide financial support. However, it pointed out that the 'negative' outlook reflects concerns that the GCC financial support would not be sufficient to stabilize Bahrain's credit metrics.

Source: Moody's Investors Service

EGYPT

Sovereign ratings affirmed on reforms and improving external finances

Fitch Ratings affirmed Egypt's long-term foreign-currency Issuer Default Rating (IDR) at 'B', with a 'positive' outlook. It indicated that the rating balances Egypt's strong commitment to its reform agenda, greater macroeconomic stability and improving external finances, with the country's wide fiscal deficits, elevated public debt level and weak governance. It added that the 'positive' outlook reflects the improving trend across a number of Egypt's credit metrics. It expected the average inflation rate to regress from 13% in 2018 to 11.6% in 2019. It anticipated the current account deficit to average 2.5% of GDP annually during the 2018-20 period, while it expected foreign currency reserves to remain adequate, covering on average six months of current external payments. Further, it said that improved balance-of-payments dynamics have led to a sharp increase in foreign currency reserves that continued to grow in 2018. It added that foreign currency reserves reached $44.3bn at the end of June 2018 compared to $36.3bn at end-2017 despite the $5bn in capital outflows since May, due to investors' sell-off from emerging markets. In contrast, Fitch indicated that public finances continue to be a key weakness for Egypt's credit profile. It noted that the fiscal deficit narrowed slightly from 10.9% of GDP in FY2016/17 to 9.8% of GDP in FY2017/18, due to higher interest payments as a result of increased public debt level. It projected the public debt level to decline from 93.6% of GDP at end-June 2018 to 88% of GDP at end-June 2019 and to reach 75% of GDP by end-June 2023.

Source: Fitch Ratings

PAKISTAN

Rating downgraded on high payment risks

IHS Markit downgraded Pakistan's medium-term sovereign credit rating by one notch to 65, equivalent to 'CCC+' on the generic ratings scale to reflect extremely high payments risks. It maintained the 'negative' outlook on the ratings. It attributed the downgrade to the deterioration of the country's external liquidity and the increase in external borrowing. It said that the country's liquid foreign currency reserves dropped from about $16.2bn in July 2017 to $9bn in July 2018, and that the cost of large-scale investments projects under the China-Pakistan Economic Corridor exceeded the country's very limited foreign-currency earnings capacity. Also, it noted that the current account deficit widened from $11bn in the first 11 months of the fiscal year that ended in June 2017 to $16bn in the same period of FY2017/18 due to higher imports. It added that pressure on foreign currency reserves are increasing due to higher debt-servicing obligations on the external debt, which are expected to increase from $7.7bn in FY2017/18 to $12.7bn in FY2018/19. It also indicated that the country's total foreign debt increased by $28.8bn since June 2015 to reach $91.8bn at end-March 2018. Further, it considered that the increase in external debt servicing is weighing on Pakistan's public finances, with over 40% of federal spending earmarked towards debt repayment. It expected principal and interest payments to rise from 4% of GDP in 2017 to above 6% of GDP by 2022. In parallel, it stressed the importance of the government's negotiations with the IMF in order to secure the external financing required to cover the country's near-term debt obligations and import payments.

Source: IHS Markit

DEM REP CONGO

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'CCC+/C' the Democratic Republic of Congo's (DRC) long- and short-term sovereign credit ratings, with a 'stable' outlook on the long-term ratings. It indicated that the ratings reflect the vulnerability of the country's economy and its dependence on favorable financial and economic conditions to meet it medium- to long-term commitments. It added that the ongoing political deadlock and uncertainty about the December 2018 presidential elections continue to threaten the country's already weak institutions, weigh on economic activity and constrain external financing options. But it said that the DRC does not have any material commercial debt maturing during the 2018-21 period, and that the country's debt stock largely consists of already existing payment arrears. In parallel, S&P projected real GDP growth to decelerate from an annual average rate of 7% during the 2011-16 period to 3.6% annually between 2018 and 2021. Still, it expected higher cobalt and copper prices to increase export receipts and support growth in coming years. Further, it anticipated the fiscal deficit to remain broadly balanced during the 2018-21 period, given the government's very limited access to financing, as well as its constrained ability to increase revenues through taxation due to the large informal economy and weak administrative capacity. It projected the DRC's gross external financing needs to average 102% of current account receipts plus usable reserves in the 2018-21 period. It forecast the current account deficit at 1.7% of GDP in 2018 and 2.3% of GDP in 2019.

Source: S&P Global Ratings

BANKING

TURKEY

Outlook changed to 'negative' amid further lira depreciation

IHS Markit downgraded its outlook on the Turkish banking sector from 'stable' to 'negative', due to several short-term risks that are threatening the sector's stability. In parallel, it maintained the banking risk ratings at 60, equivalent to 'B-' on the generic ratings scale, and which reflects very high risks in the sector. It noted that the Central Bank of the Republic of Turkey maintained its policy rate at 17.75% despite the high inflation, which led to the depreciation of the Turkish lira by more than 20% since the beginning of 2018. It said that the depreciation of the lira is weighing on Turkish banks, given that one-third of the sector's loans are denominated in foreign currency. Further, it indicated that Turkish banks continue to rely on foreign and non-deposit funding, as their outstanding foreign liabilities were equivalent to 23% of total funding in the first quarter of 2018, which makes them vulnerable to shifts in investor sentiment. It added that several large Turkish corporations have requested debt-restructuring deals this year, reflecting their weakened debt-servicing capacity as a result of the currency devaluation and the slowdown in growth. Also, it expected short-term portfolio inflows, which have financed the banks' strong credit growth and in turn domestic demand growth, to remain more volatile and vulnerable to sudden outflows in the event of shocks. In addition, it said that downside pressure on the banks' ratings could emerge from sustained portfolio outflows, significant fines on one or more Turkish banks, or default of a large corporate borrower.

Source: IHS Markit

QATAR

Banking sector benefiting from government support

Fitch Ratings indicated that Qatari authorities injected about $40bn of deposits in the banking sector in the second half of 2017, which reflects the willingness and the ability of the government to support domestic banks. It said that the long-term Issuer Default Ratings (IDRs) of the nine Qatari banks that it rates are driven by an extremely high probability of support from the government, in case of need. In parallel, it indicated that liquidity pressures re-emerged in the second half of 2017 following Qatar's political dispute with other Arab countries, which, along with rising interest rates, led to an increase in funding costs. But it noted that Qatari banks were able to offset these pressures by re-pricing their loans, keeping their net interest margins almost flat, managing their cost base, and maintaining low loan impairment charges. Further, Fitch pointed out that funding pressures have stabilized in the third quarter of 2017 as a result of the significant liquidity injections and central bank deposits. It said that the elevated foreign funding constitutes a risk to the Qatari banking sector, but it considered that the government has sufficient resources to support the banking system given its strong financial flexibility. Further, it noted that the capital ratios increased in 2017 due to lower loan growth and sound internal capital generation. In parallel, it considered that the implementation of the international accounting standard IFRS 9 in the first quarter of 2018 will not result in minimum capital breaches at any of the Qatari banks.

Source: Fitch Ratings

GHANA

New capital requirements to trigger banking sector consolidation

IHS Markit indicated that the Bank of Ghana (BoG) raised in September 2017 the minimum capital requirements for commercial banks from $26m to $88m, amid widespread under-capitalization at Ghanaian banks. Also, it set the deadline for the banks to meet the new requirements by the end of 2018, which led the banks to increase their capital through rights issues, by increasing their retained earnings, by suspending their dividend payouts and by initiating mergers operations. It added that domestic banks plan to start cost-cutting measures in order to meet the BoG's minimum capital requirements. However, it estimated that only 15 out of Ghana's 34 banks could meet the new minimum capital requirements by end-2018. As such, it said that banks are asking for an extension of the December 2018 deadline. But it noted that the BoG is highly unlikely to extend the one-year recapitalization period, which would lead to the forced consolidation of the sector if banks were unable to raise additional capital from existing shareholders or the local stock market, or to retain earnings. However, IHS anticipated that stronger economic prospects and improving fiscal management would improve the banks' asset quality, reduce NPLs and increase their profitability, which would help the banks comply with the raised capital thresholds. Further, it expected the banking sector to face increasing regulatory scrutiny under the new corporate governance rules. In parallel, IHS pointed out that Ghana's banking sector continues to face pressure from accumulated credit risks following a period of very rapid credit growth, which resulted in higher NPLs, significant asset-quality deterioration and declining profitability.

Source: IHS Markit

UAE

Tier One capital of top 21 banks up 3% to $85bn at end-2017

In its 2018 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included 21 banks operating in the UAE on the list, with seven banks ranked among the top 25 banks in the Middle East. The rankings are based on the banks' Tier One capital at year-end 2017. The survey indicated that the rankings are based on the Bank of International Settlements' definition of Tier One capital. The aggregate Tier One capital of the UAE's banks totaled $85.4bn at the end of 2017 relative to about $82.8bn in 2016, and accounted for 25.7% of the Tier One capital of banks in the Middle East. Also, the aggregate assets of the 21 banks reached $686.7bn at the end of 2017 and accounted for 24.2% of the aggregate assets of banks in the Middle East. As such, the combined Tier One capital-to-assets ratio of the UAE's banks was 12.4% at end-2017, higher than the ratio of 11.7% of banks in the Middle East and the Top 1000 banks' aggregate ratio of 6.7%. Also, the cumulative pre-tax profits of the 21 banks stood at $11.3bn in 2017. The ratio of pre-tax profits-to-Tier One capital of the UAE's banks reached 13.2% in 2017, slightly lower than the Top 1000 banks' ratio of 13.5%. The 21 banks operating in the UAE accounted for 1% of the Tier One capital of the Top 1000 banks, for 0.56% of their total assets and for 1% of their pre-tax profits at end-2017.

Source: The Banker

Oil prices to average $73.5 p/b in 2018

ICE Brent crude oil front-month prices have been trading at between $72 per barrel (p/b) and $74 p/b since mid-July 2018, balancing heightened geopolitical risks and U.S. sanctions on Iran with the ongoing U.S.-China trade war. In this context, oil prices were supported by the introduction of new U.S. sanctions on Iran on August 7. In fact, the U.S. imposed on Iran a round of sanctions that limit the latter's ability to buy US dollars, and that target Iran's automotive sector, gold and other key metals, while it plans to impose oil-related sanctions in November 2018. As such, the U.S. has been pushing its allies to halt their imports of Iranian oil ahead of the November deadline. In addition, heightened risks in the Middle East have further supported oil prices, especially after Iran threatened to close the Strait of Hormuz, an act that could damage the region's oil trade. In contrast, oil prices remain constrained by the potential impact of the ongoing U.S.-China trade war on the Chinese economy, as the latter applied an additional 25% tariff on $16bn worth of U.S. imports. Also, oil prices were pressured by weak Chinese demand for oil. In fact, Chinese oil imports are still at their third lowest level so far in 2018, due to lower margins in the refining industry as a result of stricter oil tax collection measures. Overall, Credit Suisse forecast Brent oil prices to average $75 p/b in the third quarter of 2018, $77 p/b in the fourth quarter of the year, and $73.5 p/b in 2018.
Source: Thomson Reuters, Credit Suisse, Byblos Research

Iraq's oil exports up 4% in July 2018

Iraq's crude oil exports totaled 109.8 million barrels in July 2018, constituting an increase of 4% from 105.6 million barrels in June. The country's oil exports reached 3.54 million barrels per day (b/d) in July 2018 relative to 3.52 million b/d in the previous month. All exports in the covered month originated from the country's central and southern fields, as there were no shipments from the northern Kirkuk fields. Iraq's oil export receipts reached $7.6bn in July 2018, up by 4.6% from $7.3bn in June.
Source: Thomson Reuters

Clean energy to account for 44% of UAE's energy mix by 2050

The UAE announced its Energy Strategy 2050, which aims to raise the contribution of clean energy in the country's energy mix to 44% by 2050, as well as reduce the carbon footprint of the country's power generation by 70%. Also, the strategy seeks to promote investment in energy storage, and to contribute to the reduction of power consumption. As such, the UAE's energy mix will consist of clean energy (44%), gas (38%), clean coal (12%) and nuclear energy (6%) by 2050.
Source: Zawya

Middle East's jewelry demand down 12% in second quarter of 2018

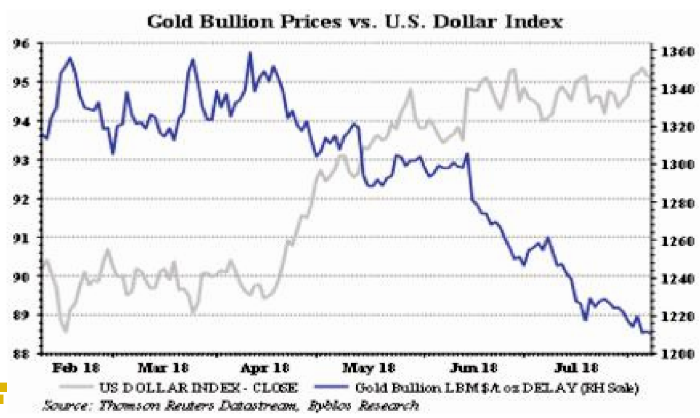
Demand for jewelry in the Middle East totaled 42 tons in the second quarter of 2018, constituting a decline of 12.3% from 47.9 tons in the same quarter last year, and accounting for 8.2% of global jewelry demand. Consumption of gold jewelry in Saudi Arabia reached 10.5 tons in the second quarter of the year, equivalent to 25% of the region's total demand. The UAE followed with 8.8 tons (21%), then Iran with 6.6 tons (15.6%), Egypt with 5.1 tons (12.2%) and Kuwait with 4.3 tons (10.1%).
Source: World Gold Council, Byblos Research

Base Metals: U.S.-China trade tensions and stronger dollar weigh on copper prices

LME copper three-month future prices averaged $6,166.4 per metric ton so far in August 2018, constituting a decline of 1.6% from an average of $6,269 per ton in July. The drop in the metal's price is mainly driven by the further escalation of trade tensions between the United States and China, as well as by rising concerns about the trade dispute's adverse impact on global economic growth and demand of copper. In fact, China announced its plan to impose retaliatory tariffs on $60bn of 5,207 goods imported from the U.S., which increased trade tensions between the two countries. Also, the metal's price further decreased as the US dollar strengthened on the back of positive labor market data in the United States. Also, copper prices dropped by 2% from the end of July to $6,133 per ton on August 6, despite concerns over imminent supply disruptions amid the ongoing unresolved labor negotiations at Escondida, the world's largest copper mine in Chile. Still, prices are expected to slightly recover form an average of $6,821 per ton so far this year to an average of $6,901 per ton in 2018, and to reach $7,050 per ton in 2019.
Source: Bank of America Merrill Lynch, Thomson Reuters

Precious Metals: Gold prices at 13-month low on stronger US dollar and weaker physical demand

Gold prices declined from an average of $1,282 per troy ounce in June 2018 to an average of $1,238 an ounce in July 2018, and closed at a 13-month low of $1,210.5 an ounce on August 8, 2018. The drop in the metal's price is due to weaker global physical demand for gold, and to the continued strengthening in the US dollar. Still, prices are expected to recover in coming months due to expectations of higher physical demand, as well as amid a recent announcement by the U.S. Administration that it would impose sanctions on Russia by end-August 2018, which would fuel demand for the safe haven asset. Global gold demand declined by 6.1% year-on-year to 1,960 tons in the first half of 2018, due mainly to a decline of 20% in investment demand, which was partly offset by a 3.1% increase in demand from the technology sector. Gold jewelry accounted for 52.6% of total demand in the covered period, followed by investment demand with 29.1% of the total, net purchases by central banks (9.9%) and demand from the technology sector (8.4%). In parallel, global gold supply grew by 5.1% year-on-year to 2,227 tons in the first half of 2018, due to an increase of 3.7% in mine supply and an expansion of 0.9% in recycled gold.
Source: World Gold Council, Bank of America Merrill Lynch, Thomson Reuters



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/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	LT Foreign currency rating												
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B-	B3	B	-	B-								
	Stable	Stable	Stable	-	Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B	B3	B	B	B+								
	Stable	Stable	Positive	Positive	Positive	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
Ghana	B-	B3	B	-	BB-								
	Positive	Stable	Stable	-	Stable	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
Libya	-	-	B	-	B-								
	-	-	Stable	-	Stable	-16.4	78.2	-	-	-	-	-10.6	-
Dem Rep	CCC+	B3	-	-	CCC								
Congo	Stable	Negative	-	-	Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B	B2	B+	-	BB-								
	Stable	Stable	Negative	-	Stable	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-2.5	55.2	47.5	-	-	-	-4.7	-
Tunisia	-	B2	B+	-	BB-								
	-	Stable	Negative	-	Negative	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-3.6*	33.3	23.1**	-	-	-	-7.2	-
Rwanda	B	B2	B+	-	B+								
	Stable	Stable	Stable	-	Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
Middle East													
Bahrain	B+	B2	BB-	BB	BB+								
	Stable	Negative	Stable	Stable	Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
Iran	-	-	-	BB-	BB-								
	-	-	-	Negative	Positive	0.7	29.2	2.0	-	-	-	5.3	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-4.2	60.0	38.8	-	-	-	-4.4	-
Jordan	B+	B1	-	BB-	BB+								
	Stable	Stable	-	Negative	Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Stable	Stable	Stable	Stable	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
Lebanon	B-	B3	B-	B	B-								
	Stable	Stable	Stable	Stable	Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
Oman	BB	Baa3	BBB-	BBB	BBB-								
	Stable	Negative	Negative	Stable	Positive	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
Qatar	AA-	Aa3	AA-	AA-	A+								
	Negative	Stable	Stable	Negative	Negative	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
Yemen	-	-	-	-	CC								
	-	-	-	-	Negative	-6.0	77.4	20.3	-	-	-	-4.2	

COUNTRY RISK METRICS

Countries	LT Foreign currency rating S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB-	Ba2	BB	BB+	BB-								
	Stable	Stable	Negative	Negative	Stable	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7

** including grants for Sub-Saharan African countries*
*** to official creditors*
****Credit Watch Negative*
Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2017

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	1.75-2.00	01-Aug-18	No change	26-Sep-18
Eurozone	Refi Rate	0.00	26-Jul-18	No change	13-Sep-18
UK	Bank Rate	0.75	02-Aug-18	Raised 25bps	13-Sep-18
Japan	O/N Call Rate	-0.10	15-Jun-18	No change	31-Jul-18
Australia	Cash Rate	1.50	07-Aug-18	No change	04-Sep-18
New Zealand	Cash Rate	1.75	08-Aug-18	No change	26-Sep-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-18
Canada	Overnight rate	1.50	11-Jul-18	Raised 25bps	05-Sep-18
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.75	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	21-Jun-18	No change	27-Sep-18
South Korea	Base Rate	1.50	12-Jul-18	No change	31-Aug-18
Malaysia	O/N Policy Rate	3.25	11-Jul-18	No change	05-Sep-18
Thailand	1D Repo	1.50	08-Aug-18	No change	19-Sep-18
India	Reverse repo rate	6.50	01-Aug-18	Raised 25bps	05-Oct-18
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	28-Jun-18	No change	16-Aug-18
Turkey	Repo Rate	17.75	24-Jul-18	No change	25-Sep-18
South Africa	Repo rate	6.50	19-Jul-18	No change	20-Sep-18
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	24-Jul-18	No change	25-Sep-18
Ghana	Prime Rate	17.00	23-Jul-18	Cut 100bps	24-Sep-18
Angola	Base rate	16.50	17-Jul-18	Cut 150bps	24-Sep-18
Mexico	Target Rate	7.75	02-Aug-18	No change	04-Oct-18
Brazil	Selic Rate	6.50	01-Aug-18	No change	19-Sep-18
Armenia	Refi Rate	6.00	26-Jun-18	No change	14-Aug-18
Romania	Policy Rate	2.50	06-Aug-18	No change	03-Oct-18
Bulgaria	Base Interest	0.00	31-Jul-18	No change	31-Aug-18
Kazakhstan	Repo Rate	9.00	09-Jul-18	No change	03-Sep-18
Ukraine	Discount Rate	17.50	12-Jul-18	Raised 50bps	06-Sep-18
Russia	Refi Rate	7.25	27-Jul-18	No change	14-Sep-18

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