

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Sovereign creditworthiness remains below 'BBB-'

S&P Global Ratings indicated that the average sovereign rating of the 20 emerging markets (EMs) with the highest level of outstanding commercial debt was slightly below 'BBB-' at the end of the September 2018, slightly lower than the average rating at end-June 2018 and lower than the average rating at end-September 2017. It said that it downgraded Turkey's sovereign ratings from 'BB-' to 'B+', while it revised the outlook on Argentina's sovereign ratings from 'stable' to 'credit watch negative' in the third quarter. S&P noted that 65% of the covered sovereigns had an investment-grade rating of 'BBB-' or above at the end of September 2018, unchanged from end-June 2018 and relative to 60% of the covered sovereigns at end-September 2017. It added that 25% of EM ratings were in the 'B' category or below in the covered period, up from 15% over the 2009-10 period, reflecting a deterioration in the credit quality of EM sovereigns that are rated at the lower end of the rating range. Further, the agency said that the average sovereign rating becomes slightly below 'A-' at end-September 2018 when the ratings are weighted by nominal GDP, nearly unchanged from end-June 2018 and from end-September 2017. Also, it said that the outlook on the sovereign ratings of EMs had a positive balance at end-September 2018, with Hungary, Poland and the Philippines carrying 'positive' outlooks on their ratings at the end of the third quarter of 2018; Argentina and Qatar having 'credit watch negative' and 'negative' outlooks respectively, and the remaining sovereigns carrying 'stable' outlooks.

Source: S&P Global Ratings

BAHRAIN

Aggregate earnings of listed firms up 5% to \$1.2bn in first half of 2018

The net income of 38 companies listed on the Bahrain Stock Exchange totaled BHD455m, or \$1.21bn in the first half of 2018, constituting an increase of 4.8% from BHD434.2m, or \$1.15bn, in the same period of 2017. Listed commercial banks generated net profits of \$587.5m in the first half of 2018 and accounted for 48.5% of the total earnings of publicly-listed firms. Investment firms followed with \$313.2m, or 25.9% of the total, then industrial companies with \$172m (14.2%), services firms with \$141m (11.7%), and hotels & tourism companies with \$6.3m (0.5%). In parallel, insurers posted net losses of \$9.9m in the first half of 2018. Further, the net earnings of industrial firms grew by 36.4% year-on-year in the first half of 2018, followed by investment companies (+12.6%), and commercial banks (+12.1%). In contrast, the net profits of hotels & tourism companies regressed by 59.7% year-on-year in the first half of 2018, and the earnings of services firms decreased by 27.8% annually.

Source: KAMCO

GCC

Hotel occupancy rates in most GCC economies to increase in the 2018-27 period

Global hotel consulting firm HVS projected the average hotel occupancy rates in most Gulf Cooperation Council (GCC) countries to increase in the 2018-27 period from the previous 10 years. It expected the average occupancy rate at hotels in the UAE to improve from an average of 73% in the 2008-17 period to 75% in the 2018-27 period, the rate at hotels in Saudi Arabia to increase by eight percentage points to 69% in the coming 10 years, and the occupancy rate at hotels in Oman to grow from an average of 61% in the past 10 years to 66% in the 2018-27 period. It also forecast the occupancy rate at hotels in Kuwait to increase from an average of 58% in the 2008-17 period to an average of 62% over the coming 10 years, while it anticipated the rate in Bahrain to expand by five percentage points to an average of 60% over the 2018-27 period. Also, it projected the average occupancy rate at hotels in Qatar at 63% between 2018 and 2027, nearly unchanged from 64% over the past 10 years. In parallel, HVS projected the average daily rate per room at hotels in Saudi Arabia to outperform the rate of hotels in other GCC economies, and to rise from an average of \$191 in the 2008-17 period to \$225 over the coming 10 years. Further, it expected the revenue per available room (RevPAR) at hotels in Saudi Arabia to post the highest rate in the region, increasing from an average of \$116 between 2008 and 2017 to \$155 in the 2018-27 period. It anticipated the RevPAR at hotels in Qatar to follow with an average of \$117 over the 2018-27 period, then Oman with \$116, Kuwait with \$115, the UAE with \$109, and Bahrain with \$102.

Source: HVS Research

Fixed income issuance at \$84bn in first nine months of 2018

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached \$84.1bn in the first nine months of 2018 compared to \$122.6bn in full year 2017. Aggregate fixed income in the first nine months of 2018 included \$36.3bn in sovereign bonds, or 43.2% of the total, followed by corporate bond issuance at \$25.9bn (30.8%), sovereign sukuk at \$12.2bn (14.5%) and corporate sukuk at \$9.7bn (11.5%). Overall, bonds and sukuk issued by GCC sovereigns totaled \$48.5bn, or 57.7% of total fixed income issuance in the region, while bonds and sukuk issued by corporates in the GCC amounted to \$35.6bn or 42.3% of the total. On a monthly basis, GCC sovereigns issued \$10.3bn in bonds and sukuk in January, \$300m in February, \$1.6bn in March, \$25.3bn in April, \$800m in May, \$3.6bn in June, \$900m in July, \$400m in August, and \$5.3bn in September 2018. In parallel, corporates in the GCC issued about \$2.2bn in bonds and sukuk in January, \$7.7bn in February, \$6.4bn in March, \$5.7bn in April, \$3.4bn in May, \$800m in June, \$500m in July, \$1.3bn in August, and \$7.6bn in September 2018.

Source: KAMCO

OUTLOOK

EMERGING MARKETS

Growth at 4.7% for 2018, varies across regions

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.7% in 2018, down from its July 2018 forecast of 4.9%, and compared to growth rates of 2.4% for advanced economies and 3.7% for the global economy. It indicated that the growth outlook of energy exporters improved due to higher global oil prices, while economic prospects deteriorated in Argentina, Brazil, Iran and Turkey, among others, due to country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills. It said that downside risks to the outlook have increased over the past six months, as rising trade barriers, a reversal of capital flows to emerging market economies, and higher political risks have become more pronounced or have partially materialized. It noted that the intensification of trade tensions and the associated rise in policy uncertainty could weigh on business and financial market sentiment, trigger financial market volatility, and slow investment and trade. It added that a faster-than-anticipated tightening of monetary policy in advanced economies could lead to a sudden deterioration in market sentiment.

The IMF projected economic growth in Emerging & Developing Asia at 6.5% in 2018, unchanged from its July forecast, as a slight slowdown in China's growth would be offset by stronger activity in India. Also, it revised downward its growth forecast for Emerging & Developing Europe to 3.8% in 2018 from 4.3% in July 2018. Further, it projected Sub-Saharan Africa's real GDP growth at 3.1%, down from 3.4% previously, but expected activity to be supported by higher commodity prices and improved capital market access. In parallel, it forecast growth in the Middle East & North Africa region at 2% in 2018, down from 3.2% in July, reflecting mainly a deterioration in Iran's growth prospects following the re-imposition of U.S. sanctions and lower growth for Sudan. In addition, the Fund anticipated economic activity in the Commonwealth of Independent States at 2.3% in 2018, unchanged from its July forecast. In parallel, it projected real GDP growth in Latin America & the Caribbean at 1.2% this year, down from its previous forecast of 1.6%.

Source: International Monetary Fund

Net private capital inflows at \$1.14 trillion in 2018

The Institute of International Finance reduced its forecast for non-resident capital inflows to emerging markets (EMs) to \$1.14 trillion in 2018 from a May projection of \$1.21 trillion, and compared to inflows of \$1.26 trillion in 2017. It expected non-resident capital inflows to be equivalent to 3.7% of EM's GDP this year, down from 4.4% of their GDP in 2017. It attributed the anticipated decline in capital flows to lower portfolio inflows, which it projects at \$310bn in 2018, down from a May forecast of \$351bn. Specifically, it lowered its expectations for debt inflows to \$246bn in 2018 from \$255bn previously, and for equity flows to \$64bn down from an earlier forecast of \$95bn. It projected foreign direct investment at \$504bn in 2018, down from a May forecast of \$523bn; while it expected other investments in EMs, mainly banking related flows, at \$325bn in 2018, down from a previous forecast of \$338bn. It said that downside risks include the intensification of trade tensions between the

U.S. and China, faster-than-expected increase in U.S. policy rates, a stronger US dollar, policy uncertainty in China, and delayed or inadequate policy response in EM countries.

Further, the IIF forecast non-resident capital inflows to Emerging Asia to grow from \$725bn in 2017 to \$764bn in 2018, mainly due to a rise of \$143bn in inflows to China. In contrast, it projected inflows to Latin America to decline from \$235bn in 2017 to \$199bn this year, those to the Middle East & Africa region to regress from \$166bn last year to \$149bn in 2018, and inflows to Emerging Europe to fall from \$134bn in 2017 to \$26bn this year.

Source: Institute of International Finance

TURKEY

Depth of recession dependent on access to external funding

Credit Suisse indicated that the Turkish authorities' monetary and fiscal measures, along with an improvement in risk sentiment towards emerging markets and a reassessment of the market's exaggerated risk perception about the Turkish banking sector, have helped reverse the depreciation pressure on the Turkish lira. However, it considered that it is too soon to be optimistic about the policy outlook, given Turkey's weak institutions and track record of inappropriate policy-making. It noted that any political pressure to push for premature monetary policy or fiscal easing would trigger an adverse reaction from the markets.

Credit Suisse estimated that the depth and duration of Turkey's economic recession depends on the country's access to external funding, which, in turn, is contingent on the steady implementation of prudent policies and the authorities' tolerance for a contraction in economic activity over the next few quarters. It anticipated the economic slowdown and rebalancing, which started before the August turmoil, to be more pronounced in coming quarters. As such, it projected real GDP growth to decelerate from an estimated 3.5% in 2018 to 0.7% in 2019. Further, it anticipated the inflation rate to increase from an average of 15.6% in 2018 to 18.6% in 2019 due to the sharp depreciation of the lira, unfavorable base effects, as well as possible increases in gasoline prices and taxes early next year.

In parallel, Credit Suisse estimated that the banking sector and non-bank corporates have enough liquidity in foreign currency to meet their foreign currency liabilities over the next six to 12 months. It considered that non-bank corporates are able, for now, to absorb the steep depreciation of the currency. Further, it said that the banking sector's Tier-One capital ratio would remain around the current prudential limits under a scenario whereby the non-performing loans (NPLs) ratio rises from 3% currently to 10.5%, and the exchange rate stands at TL6.5 against the US dollar. It estimated that the banking sector would require recapitalization needs equivalent to 6% of GDP under an unlikely scenario whereby the NPLs ratio reached about 21%. Still, it said that the government's balance sheet can absorb the materialization of such contingent liabilities, given that the public debt level is about 30% of GDP. It said that a loss of policy credibility and the tension between Turkey and the U.S. constitute the main risks to the outlook in coming months.

Source: Credit Suisse



ECONOMY & TRADE

MOROCCO

Outlook on sovereign ratings revised to 'negative'

S&P Global Ratings affirmed at 'BBB-' Morocco's long-term foreign currency sovereign credit ratings, and revised the outlook from 'stable' to 'negative' due to wider-than-expected fiscal deficits and a slowdown in economic activity. It anticipated the Moroccan government to significantly deviate from its budget deficit target of 3% of GDP for 2018 and to post a deficit of 3.8% of GDP this year due to reduced grants from GCC countries, higher transfers to lower levels of government, and increased costs of energy subsidies. As such, the agency anticipated the government debt level to increase from 51.6% of GDP at the end of 2017 to 52.8% of GDP at end-2018, and projected it to stabilize at about 54% of GDP during the 2019-21 period. In parallel, S&P anticipated real GDP growth to decelerate from 4.1% in 2017 to 3.2% in 2018 and 2019. It expected economic activity to be supported by a moderate expansion in agricultural output, solid growth in the automotive and tourism sectors, as well as higher demand for phosphates and their derivatives. It noted that growth is vulnerable to the volatility of agricultural output and the ongoing economic slowdown in Europe. Further, the agency forecast the current account deficit to widen from 3.5% of GDP in 2017 to 4.2% of GDP in 2018, mainly due to higher global oil prices, and projected it to narrow gradually to 3.7% of GDP by 2021 due to an increase in exports. It projected the country's gross external financing requirements to average 94% of current account receipts plus usable reserves in the 2018-21 period.

Source: S&P Global Ratings

OMAN

Insurance sector faces moderate country risks and intermediate industry risks

S&P Global Ratings assessed as "moderate" the overall risk level of the property and casualty (P/C) insurance sector in Oman. It indicated that the assessment is derived from a "moderate" country risk level and an "intermediate" industry risk level for the domestic P/C insurance sector. The risk scale ranges from "low" to "intermediate", "moderate" and "high". The agency indicated that the "moderate" overall risk balances elevated economic and financial sector risks with favorable premium growth prospects in the long-term and an overall profitable insurance market. It attributed the "moderate" country risk to Oman's high reliance on the hydrocarbon sector, which exposes economic activity to changes in global oil prices and domestic production. In parallel, S&P said that the "intermediate" industry risk assessment is supported by positive market growth prospects in the medium term, as regulators are in the process of introducing compulsory health insurance coverage for all private-sector workers in the country, which would lead to strong premium growth in the health insurance segment. In addition, it said that the return on equity of national insurers averaged about 15% annually over the 2013-17 period, significantly exceeding the average return on equity in other GCC insurance markets. Further, it indicated that the effective use of reinsurance by Omani insurers mitigates their exposure to catastrophe risks. In parallel, S&P considered the regulatory framework to be weak compared to international standards, due to the lack of progress towards the explicit adoption of risk-based capital adequacy measures.

Source: S&P Global Ratings

BAHRAIN

Gulf funds to support fiscal adjustment

Fitch Ratings indicated that the agreement between Bahrain and other Gulf Cooperation Council countries on a \$10bn long-term interest free loan would help restore the country's external market access and support its fiscal adjustment program. It anticipated Bahrain's fiscal financing at about \$3bn annually during the 2018-20 period, adding that the local banking sector is in a position to finance a part of the needs. In addition, it estimated that Bahrain will need \$7bn to \$8.5bn per year to rollover existing debt, but it noted that most of the debt is domestic short-term instruments held by the banking sector. Further, it pointed out that Bahrain's recent Fiscal Balance Program (FBP), which aims to eliminate the fiscal deficit by 2022 and put the government debt on a downward path, is the country's clearest medium-term plan in recent years. But it considered the FBP's targets to be ambitious. It expected budgetary spending to regress from about 27% of GDP in 2017 to 23% of GDP by 2020 and to miss the FBP's target of 20% of GDP, due to the government's limited room to further reduce non-interest expenditures. It projected non-oil revenues to rise from 15% of budgetary expenditures in 2017 to about 25% in 2020, instead of the 30% target in the FBP. It considered that a rebound in oil revenues could significantly narrow the fiscal deficit and stabilize the government's debt level, even with the partial progress on structural fiscal consolidation. It expected the fiscal deficit to narrow from 7.9% of GDP in 2018 to 3.8% of GDP in 2020 in case oil prices remain at \$70 p/b.

Source: Fitch Ratings

CÔTE d'IVOIRE

Economic growth to average 7% in 2018-20 period

Fitch Ratings affirmed Côte d'Ivoire's long-term foreign-currency issuer default rating at 'B+', with a 'stable' outlook. It indicated that the ratings balance strong economic growth and low inflation with low governance and development indicators, two debt defaults since 1999, and high dependence on agriculture. It expected real GDP growth to average 7% annually in the 2018-20 period, driven by strong domestic demand, as well as by investment in the energy and transportation infrastructure. It projected the fiscal deficit to narrow from 4.2% of GDP in 2017 to 3% of GDP in 2019, in line with the authorities' target. It also anticipated the public debt to reach 44.5% of GDP at the end of 2018, but to decline thereafter. The agency added that recent Eurobond issuances lengthened the country's debt maturity profile, but expected them to increase the share of foreign-currency debt from 47% of total debt in 2015 to 58% of debt in 2018. Further, it projected the current account deficit to widen to an average of 3.1% of GDP in the 2018-20 period, and to be financed by FDI inflows and external sovereign borrowing. In parallel, the International Monetary Fund projected a strong economic performance in 2018 and 2019. It expected the fiscal deficit at 3% of GDP in 2018, in line with the ongoing IMF program, with lower public investments offsetting a small shortfall in revenues. In parallel, Moody's Investors Service indicated that Côte d'Ivoire's 'Ba3' long-term issuer and senior unsecured ratings are supported by increased economic resilience, a low debt burden, as well as subdued political risks in the run-up to the 2020 presidential elections.

Source: Fitch Ratings, International Monetary Fund, Moody's Investors Service



BANKING

EGYPT

Banking sector's credit risks decline

S&P Global Ratings upgraded Egypt's Banking Industry Country Risk Assessment (BICRA) to 'Group 9' from 'Group 10' and its economic risk score to '9' from '10', while it affirmed its industry risk score at '8'. The BICRA framework evaluates banking systems based on economic and industry risks facing a banking sector. It assigns scores to banking systems on a scale from one to 10, with 'Group 10' representing the riskiest banking sectors. S&P indicated that Egypt's economic risk score reflects the upgrade of its assessment of credit risk in the economy to "very high risk" from "extremely high risk", as well as its assessment of economic resilience at "extremely high risk", and economic imbalances at "high risk". It attributed its assessment to improved economic and political conditions, which have reduced credit risks and strengthened business performance. It projected lending growth at about 15% to 20% over the next 12 to 18 months. It noted that problem loans in the banking sector are relatively moderate, because Egyptian banks lend to a limited number of high quality borrowers and to government-related entities whose loans are guaranteed by the Ministry of Finance. It pointed out that the banks' exposure to cyclical sectors, mainly tourism, is limited and does not exceed 5% of total loans, although such sectors still account for a high portion of non-performing loans. It noted that lending in foreign currency, which represents 35% of total loans, is only available to companies that generate income in foreign currency, mainly exporters. It added that the availability of foreign currency, along with the stability of the exchange rate, has improved the asset quality of borrowers in foreign currency. In parallel, it said that the industry score reflects the country's "extremely high risks" in its institutional framework, and "high risks" in its system-wide funding and competitive dynamics. It noted that the trend is 'stable' for the industry and economic risks.

Source: S&P Global Ratings

QATAR

Banking sector outlook revised to 'stable'

Moody's Investors Service revised the outlook on Qatar's banking system from 'negative' to 'stable', due to the resilience of the economy and the banking system to the ongoing rift between Qatar and some Arab countries, mainly other Gulf Cooperation Council (GCC) countries and Egypt. It said that inflows from the government and government-related entities have helped the banking sector rebalance its funding profile. It added that financial support from the public sector has stabilized domestic liquidity conditions, which, in turn, reduced the reliance of Qatari banks on market funding and offset funding pressures caused by the ongoing dispute. Further, it expected loan performance to be broadly stable, as it anticipated the slowdown in economic activity over the past few years and the continued challenges in the construction and contracting sectors to put modest pressure on the loans' performance. It forecast the banking sector's non-performing loans ratio to increase slightly from 2% in June 2018 to between 2.2% and 2.5% by 2019. In addition, it pointed out that tangible common equity at Qatari banks would remain stable at 15.5% of risk-weighted assets in coming months, supported by lending growth and profit retention. It noted that the banks' capital ratios showed resilience under a scenario of increased stress.

Source: Moody's Investors Service

TUNISIA

Liquidity pressures at banks persist

The International Monetary Fund indicated that Tunisia's banking sector is stable, as reforms in the sector are advancing. It said that the banking sector's capital adequacy ratio was 11.8% at the end of March 2018, nearly unchanged from end-2017, supported by solid profitability that resulted from strong corporate credit demand. However, it noted that the non-performing loans (NPLs) ratio remained high at 13.9% at end-March 2018, even though it regressed from a peak of 16.6% at end-2015. It expected the NPLs ratio to further decline due to the ongoing internal restructuring and balance sheet repair at state-owned banks, supported by the recent adoption of legislation on write-offs and resolutions, the improvement in internal processes, and the strengthening of banking supervision. Further, it said the banking sector has structural liquidity deficits, with deposit growth lagging the expansion in lending. It added that the strong demand for cash, due to seasonal factors and strong informal sector activity, has increased the pressure on the banks' liquidity, leading them to significantly rely on the Central Bank of Tunisia's (CBT) refinancing window. It said that the CBT's refinancing of the banking sector reached a record high of TD17bn at the end of July 2018 due to strong demand for foreign and domestic currency during the summer and the harvest season, before declining to TD16.4bn at end-August. The IMF encouraged the CBT to streamline its refinancing operations that have been raising demand for foreign currency. In parallel, it called on authorities to quickly increase the cap on lending rates for commercial banks from 20% to 33%.

Source: International Monetary Fund

GHANA

Increase in minimum capital leading to banking sector consolidation

Moody's Investors Service indicated that the Ghanaian banking sector's macro profile reflects the banks' high-risk credit conditions, as well as weak funding conditions and industry structure. It indicated that the non-performing loans ratio reached 23% at the end of June 2018 due to high lending growth, subdued economic activity and exchange rate volatility during the 2015-16 period. It considered that credit conditions are constrained by the banking system's weak risk management and internal controls, the widespread under-provisioning for loans among banks, as well as by a high degree of credit concentration and limited transparency, particularly at locally-owned banks. It added that other constraints include the relatively high share of foreign currency denominated loans of 23% of total loans at end-2017, which exposes borrowers to the risk of a depreciation of the Ghanaian cedi. In parallel, the agency indicated that Ghana's banks rely mainly on deposits and capital to fund their lending. It said that deposits and capital both accounted for 75% of total liabilities, while the net loans-to-deposits ratio was 61% at end-April 2018, which means that banks have sufficient internal funding capacity. In parallel, Moody's noted that the largest six banks, out of 34 registered banks, account for about 43% of the sector's assets. It added that the Bank of Ghana's decision to raise the minimum required paid-up capital for new and existing banks from GHS120m in September 2017 to GHS400m by end-2018 would increase barriers to entry and lead to consolidation in the sector.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Brent oil prices to average \$77 p/b in fourth quarter of 2018

ICE Brent crude oil front-month prices have been trading above \$83 per barrel (p/b) from the beginning of October 2018, their highest levels since November 2014. Oil prices have been mainly supported over the past two months by the upcoming U.S. sanctions on Iran's oil industry. In fact, Iranian oil exports fell in the first week of October to about 1 million barrel per day (b/d), from 1.6 million b/d in September and 2.5 million b/d in April, the month before the withdrawal of the U.S. from the 2015 nuclear deal with Iran. In this context, higher than expected cuts in Iran's oil exports are raising concerns about the ability of Saudi Arabia and Russia to fill the supply gap. Also, expectations of higher oil demand in China following a potential economic stimulus have backed oil prices. In addition, oil prices were supported by seasonal factors, such as Hurricane Michael, causing the shutdown of about 40% of crude production in the U.S. Gulf of Mexico. In contrast, multiple factors are weighing on oil prices, including an upward revision of U.S. oil output in 2018 from 10.66 million b/d to 10.74 million b/d, as well as the recent cut by the International Monetary Fund of its global economic growth forecast for 2018 and 2019. Overall, Credit Suisse expected Brent oil prices to increase from an average of \$75.8 p/b in the third quarter of the year to \$77 p/b in the fourth quarter of 2018, while it forecast prices to average \$73.5 p/b in 2018 relative to \$54.8p/b in 2017.

Source: Credit Suisse, U.S. Energy Information Administration, International Monetary Fund, CNBC, Thomson Reuters

DRC's copper production to rise by 12% in 2018, gold output to increase by 23%

The Chamber of the Mines of the Democratic Republic of Congo (DRC) projected the country's copper production at 1.2 million tons in 2018, which would constitute an increase of 11.6% from 2017. It also forecast the country's cobalt supply to surge by 33% to 98,449 tons, while it expected the DRC's gold output to increase by 22.6% to 28,539 kilograms this year.

Source: Chamber of the Mines of DRC

OPEC's oil basket price up 7% in September 2018

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged \$77.18 per barrel (p/b) in September 2018, up by 6.8% from \$72.26 p/b in the preceding month. Algeria's Sahara Blend posted a price of \$79.55 p/b, followed by Angola's Girassol at \$79.48 p/b, and Nigeria's Bonny Light at \$79.45 p/b. In parallel, all prices included in the OPEC reference basket posted monthly increases between \$1.93 p/b and \$6.91 p/b in September 2018.

Source: OPEC, Byblos Research

Algeria's energy exports down 3.6% in first half of 2018

Algeria's oil and gas export volumes reached 51.4 million tons of oil equivalent (toe) in the first half of 2018, down by 3.6% from 53.27 million toe in the second half of 2017, and by 6.5% from 54.96 million toe in the first half of 2017. Hydrocarbon receipts reached \$19.32bn in the first half of 2018, constituting an increase of 19.6% from the same period last year, due to the rebound in global oil prices. The hydrocarbon sector accounted for 95% of the country's export receipts in the first half of 2018 and for about 34% of budget revenues in the first five months of 2018.

Source: Banque d'Algérie, Thomson Reuters

Base Metals: Tighter supply conditions trigger increase in zinc prices

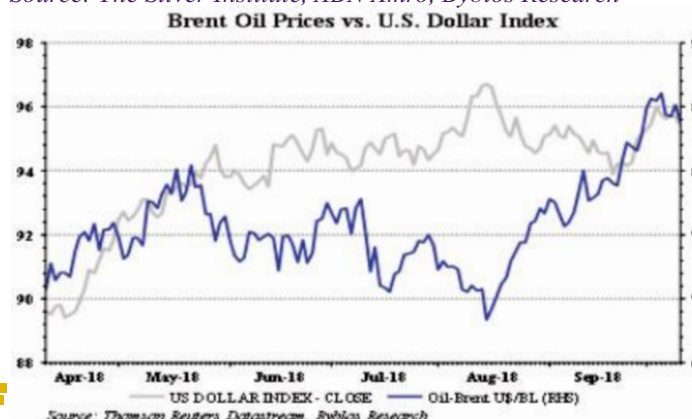
LME zinc cash price averaged \$2,678 per ton so far in October 2018, constituting an increase of 10% from an average of \$2,435 per ton in September 2018. The increase in prices is due to tighter supply conditions amid production cuts in China in response to more stringent environmental standards. China accounts for nearly 50% of global refined zinc production and is also the largest consumer of the metal. Further, the decline in the metal's inventories, from more than 250,000 tons in August 2018 to nearly a 10-year low of 194,575 tons in early October, supported the rise in prices. In parallel, the International Lead and Zinc Study Group (ILZSG) projected global refined zinc production to increase by 1.4% to 13.42 million tons in 2018 and by 3% to 13.81 million tons in 2019, driven by an anticipated rebound in the outputs of China and India as new mining capacity comes on-line. Also, it forecast global demand for refined zinc to increase by 0.4% to 13.74 million tons in 2018 and then by 1.1% to 13.88 million tons in 2019. As such, ILZSG expected the deficit in the zinc market to narrow from 322,000 tons in 2018 to 72,000 tons in 2019. In this context, ABN AMRO anticipated zinc prices to remain at current levels over the short term, but to face downward pressure in 2019 as the market rebalances.

Source: International Lead and Zinc Study Group, ABN AMRO, Thomson Reuters

Precious Metals: Silver prices to rise in medium term on higher electronic and photovoltaic demand

Silver prices have been on a downward trend in recent months, as they declined from an average of \$16.5 per troy ounce in each of May and June 2018 to \$15.7 an ounce in July, \$15 an ounce in August and \$14.3 per ounce in September 2018. The drop in prices is mainly due to subdued jewelry demand for the metal and silverware consumption, as well as to the strengthening of the US dollar that started in April 2018. However, the metal's price is anticipated to increase in the remainder of the year and in 2019, partly due to expectations of a weaker US dollar, a decrease in U.S. bond yields, as well as declining global mine supply. In addition, a rise in industrial demand in China from increased usage of silver in photovoltaic cells, as well as higher electronic demand in the country, mainly related to LED technologies, are expected to support silver prices in the medium term. As such, prices are projected to increase to \$15.5 per ounce by the end of 2018 and to \$18 an ounce by the end of 2019. Downside risks to the price outlook include the continued drop in jewelry demand and an escalation in U.S.-China trade tensions.

Source: The Silver Institute, ABN Amro, Byblos Research



COUNTRY RISK METRICS

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



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					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 (%)
	S&P	Moody's	Fitch	CI	IHS								
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	B+	Ba3	BB	BB+	BB-								
	Stable	Negative	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		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.00-2.25	26-Sep-18	Raised 25bps	08-Nov-18
Eurozone	Refi Rate	0.00	13-Sep-18	No change	25-Oct-18
UK	Bank Rate	0.75	13-Sep-18	Raised 25bps	25-Oct-18
Japan	O/N Call Rate	-0.10	19-Sep-18	No change	31-Oct-18
Australia	Cash Rate	1.50	02-Oct-18	No change	06-Nov-18
New Zealand	Cash Rate	1.75	26-Sep-18	No change	07-Nov-18
Switzerland	3 month Libor target	-1.25-(-0.25)	20-Sep-18	No change	13-Dec-18
Canada	Overnight rate	1.50	05-Sep-18	No change	24-Oct-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	27-Sep-18	No change	20-Dec-18
South Korea	Base Rate	1.50	31-Aug-18	No change	18-Oct-18
Malaysia	O/N Policy Rate	3.25	05-Sep-18	No change	08-Nov-18
Thailand	1D Repo	1.50	19-Sep-18	No change	14-Nov-18
India	Reverse repo rate	6.50	05-Oct-18	No change	05-Dec-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	27-Sep-18	No change	15-Nov-18
Turkey	Repo Rate	24.0	13-Sep-18	Raised 625bps	25-Oct-18
South Africa	Repo rate	6.50	20-Sep-18	No change	22-Nov-18
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	25-Sep-18	No change	20-Nov-18
Ghana	Prime Rate	17.00	24-Sep-18	No change	26-Nov-18
Angola	Base rate	16.50	21-Sep-18	No change	26-Nov-18
Mexico	Target Rate	7.75	04-Oct-18	No change	30-Oct-18
Brazil	Selic Rate	6.50	19-Sep-18	No change	31-Oct-18
Armenia	Refi Rate	6.00	25-Sep-18	No change	13-Nov-18
Romania	Policy Rate	2.50	03-Oct-18	No change	06-Nov-18
Bulgaria	Base Interest	0.00	01-Oct-18	No change	15-Nov-18
Kazakhstan	Repo Rate	9.00	03-Sep-18	No change	15-Oct-18
Ukraine	Discount Rate	18.00	06-Sep-18	Raised 50bps	25-Oct-18
Russia	Refi Rate	7.50	14-Sep-18	Raised 25bps	26-Oct-18



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