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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Unlisted infrastructure funds raise $29.4bn in first quarter of 2017

Research provider Preqin indicated that 16 unlisted infrastructure funds held a final close and secured a record-high of $29.4bn in capital commitments in the first quarter of 2017, up by 2.2 times from $13.2bn in the fourth quarter of 2016 and by 84.3% from $16bn in the first quarter of 2016. It noted that 81 unlisted infrastructure funds held a final close and secured $92.4bn in capital commitments between January 2016 and March 2017. It added that 29 unlisted infrastructure funds with a primary focus on North America raised $50.5bn in the 15-month period that ended in March 2017, equivalent to 54.6% of the aggregate capital raised, while 31 European-focused funds secured $26.7bn (28.9%) and seven Asian-focused funds raised $8.7bn (9.4%). Also, the survey indicated that there were 168 unlisted infrastructure funds seeking to raise an aggregate of $102bn in capital as at the beginning of the second quarter of 2017, of which $32bn have already been raised through interim closes. It indicated that 70 out of the 168 unlisted infrastructure funds, or 41.7%, are seeking to raise $36.8bn to be invested in Europe, followed by 42 infrastructure funds (25%) aiming to raise $30.4bn in capital to be invested in North America, and 13 infrastructure funds (7.7%) seeking to raise $7.6bn in capital to be invested in Asia.

Source: Preqin

EMERGING MARKETS

Fixed income trading up 2% to $1,323bn in first quarter of 2017

Trading in emerging markets (EM) debt instruments reached $1,323bn in the first quarter of 2017, constituting a rise of 16.9% from $1,132bn in the preceding quarter and an increase of 1.8% from $1,299bn in the first quarter of 2016. Turnover in local-currency instruments reached $722bn in the first quarter of 2017, up by 8.7% from $664bn in the preceding quarter but down by 11.8% from $819bn in the first quarter of 2016. In parallel, trading in Eurobonds, mainly sovereign and corporate bonds, stood at $590bn in the first quarter of 2017, up by 26.6% from $466bn in the previous quarter and by 25.3% from $471bn in the first quarter of 2016. The volume of traded sovereign Eurobonds reached $331bn and accounted for 56% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached $218bn, or 37% of the total. In addition, turnover in warrants and options stood at $11bn in the first quarter of 2017, while loan assignments reached $260m in the covered quarter. Overall, the most frequently traded instruments in the first quarter of 2017 were Brazilian and Mexican fixed income assets with a turnover of $202bn each, or 15.3% of the total each, and instruments from China with $95bn (7.2%). Other frequently traded instruments consisted of fixed income securities from South Africa at $89m (6.7%) and from Poland at $85m (6.4%).

Source: EMTA

MENA

Cost of living decreases in 10 Arab cities

Mercer's 2017 survey on the cost of living in 209 cities around the world showed that the cost of living in 10 out of 17 Arab cities decreased in relative terms from the 2016 survey. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment costs. It uses New York City as the base city for the index and compares all cities against it. Dubai has the highest cost of living in the Arab world and ranks in 20th place globally, followed by Abu Dhabi in 23rd place, Djibouti (49th) and Beirut and Riyadh (52nd each). The Arab cities with the lowest cost of living are Tunis (209th), Nouakchott (189th), Algiers (187th), Cairo (183rd) and Rabat (169th). The cost of living decreased in relative terms in each of Cairo, Nouakchott, Djibouti, Amman, Kuwait City, Tunis, Doha, Beirut, Algiers and Rabat. The depreciation of the Egyptian pound significantly reduced the cost of living in Cairo, as the city's ranking fell by 92 spots from 91st place in 2016, the steepest decline among Arab cities. Manama rose in its ranking by 16 spots from 71st place, and posted the highest increase in the cost of living in the region. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers. Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues.

Source: Mercer, Byblos Research

Mobile phones are main online shopping channel in Middle East

A PwC survey of 1,000 online shoppers in the Middle East shows that 29% of surveyed participants in the region made monthly online purchases in 2016, up from 27% of respondents in 2015 and from 25% in 2014. It said that 36% of respondents who are between 18 and 24 years old made monthly online purchases compared to 13% of those who are 55 years or older. It added that 40% of surveyed respondents cited lower prices as their main motivation for making online purchases, followed by product selection (31%) and convenience (17%). Also, the survey indicated that 56% of respondents used their mobile phone to place online orders in 2016, and that 41% of shoppers used their mobile phones to pay for their purchases in 2016, up from 24% in the previous year. It noted that online safety continues to be a concern for customers, as 62% of surveyed respondents were worried about having their personal information hacked while using smartphones for online shopping. It added that 60% of respondents said that they shop online with companies they feel they can trust. In addition, the survey pointed out that 48% of respondents stay loyal to retailers due to their competitive prices, while 32% of surveyed shoppers remain loyal because of their trust in the brand that the retailers are selling.

Source: PwC

OUTLOOK

SAUDI ARABIA

Non-oil growth at 1.2% in 2017 on increased capital expenditures

Jadwa Investment projected Saudi Arabia's real GDP growth to decelerate from 1.4% in 2016 to 0.1% in 2017 due to a contraction in hydrocarbon sector activity. It forecast hydrocarbon real GDP to shrink by 1.2% in 2017 relative to a growth rate of 3.4% in 2016, due to the drop in crude oil production under the OPEC agreement. Also, it projected growth in the non-oil private sector to accelerate from 0.1% in 2016 to 1.2% this year, driven by the government's increased capital spending, as well as by improved domestic consumption and consumer sentiment. Further, it expected the country's inflation rate to average 2% in 2017 and 4.7% in 2018 relative to 3.4% in 2016. It noted that the reinstatement of allowances for public-sector employees, a recovery in global commodity prices, the introduction of new taxes and energy price hikes could increase inflationary pressure in 2017. Further, it considered that downside risks to Saudi Arabia's outlook include lower-than-expected oil prices, the uncertain impact of electricity price hikes on economic activity, a faster-than-anticipated tightening of fiscal policy, as well as delays in the implementation of planned reforms.

In parallel, Jadwa indicated that higher global oil prices in 2017 would ease the pressure on the Kingdom's fiscal and external balances. It forecast the fiscal deficit to narrow from 16.8% of GDP in 2016 to 6.9% of GDP in 2017. It expected authorities to finance the 2017 deficit through foreign and local debt issuance and from drawing down the stock of foreign assets at the Saudi Arabian Monetary Agency (SAMA). Further, it projected the current account deficit to narrow from 3.9% of GDP in 2016 to 2.1% of GDP in 2017, as it anticipated oil exports receipts to increase from \$136bn in 2016 to \$163bn in 2017. As such, it expected the public debt to grow from SAR317bn or 13.2% of GDP in 2016, to SAR433bn or 16.4% of GDP in 2017. It forecast SAMA's foreign reserves to decline from \$534bn at the end of 2016 to \$488bn at end-2017.

Source: Jadwa Investment

ARMENIA

Growth to pick up in 2017, significant challenges persist

The International Monetary Fund projected Armenia's real GDP growth to accelerate from 0.2% in 2016 to 2.9% in 2017, due to the easing of challenging external conditions that have weakened the country's fiscal position, weighed on domestic demand and led to deflationary conditions in 2016. Still, it noted that downside risks and significant structural challenges persist. It forecast the inflation rate to average 1.7% in 2017 relative to -1.4% in 2016. It considered that the Central Bank of Armenia should be prepared to further ease monetary policy in order to bring the inflation rate closer to its medium-term target range of 4%.

In parallel, the Fund pointed out that subdued domestic growth and higher-than-projected public revenues would justify additional foreign-financed capital spending in 2017. Still, it noted that Armenian authorities remain committed to maintaining a prudent medium-term fiscal path that focuses on increasing public revenues and improving spending efficiency. It projected the fiscal deficit to narrow from 5.6% of GDP in 2016 to 3.3% of GDP this year. It anticipated public revenues to increase from 20.8% of GDP last year to 21.9% of GDP in 2017, while it forecast expenditures at 23% of GDP this year relative to 23.8% of GDP in 2016. Further, the IMF called on the government to implement the new tax code and to modernize the medium-term fiscal framework. It also encouraged authorities to implement growth-promoting initiatives that would strengthen domestic competition and regulatory reforms and, in turn, develop private sector activity and diversify the economy.

In parallel, the Fund projected the current account deficit to widen from 2.7% of GDP in 2016 to 3.8% of GDP in 2017. It forecast foreign currency reserves to remain nearly unchanged at \$2.2bn, equivalent to 5.2 months of imports, in 2017. It considered that a flexible exchange rate would allow the country to absorb external shocks, support external adjustment and maintain policy buffers.

Source: International Monetary Fund

TURKEY

Growth to accelerate in 2017, significant economic and political risks to persist

Credit Suisse projected Turkey's real GDP growth to accelerate from 2.9% in 2016 to 4.2% in 2017, mainly due to improved household and corporate spending, higher credit growth and stronger export demand from Europe. But it expected heightened political instability to continue to limit private investment. It indicated that the reduced likelihood of early general elections, following the constitutional referendum and the Central Bank of Turkey's (CBT) unexpected monetary tightening in April 2017, have improved investors' perception of near-term risks in Turkey. However, it said that medium-term risks to the country's political and economic outlooks remain elevated. It noted that regional and domestic political developments, as well as structural economic problems constitute key challenges for the economy.

Further, it noted that the CBT has kept its tight monetary policy despite the broad stability of the exchange rate since mid-March, in line with the CBT's plan to maintain a tight policy until the inflation outlook improves significantly. It projected the inflation rate at 9.4% at the end of 2017 compared to 8.5% at end-2016.

In parallel, Credit Suisse expected Turkey's current account deficit to widen from \$32.6bn, or 3.8% of GDP, in 2016 to \$38.6bn, or 4.7% of GDP, in 2017, due to the anticipated increase in oil prices and the ongoing recovery in domestic demand. It said that portfolio inflows have constituted the main source of financing for the current account deficit so far in 2017, which leaves the lira vulnerable to a potential reversal of the prevailing high risk appetite towards emerging markets' assets. Also, it noted that the non-financial corporate sector's short-term foreign currency position continues to be a key vulnerability, but it expected these risks to be manageable in the near term. In parallel, it expected fiscal risks to remain contained, as it forecast the central government's fiscal deficit at 2.7% of GDP in 2017 relative to 2.1% of GDP in 2016.

Source: Credit Suisse

EGYPT

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Egypt's long-term foreign and local currency Issuer Default Ratings at 'B', with a 'stable' outlook. It indicated that the ratings balance the country's wide fiscal deficit, elevated public debt level and volatile political environment, with an improving external position and progress in the implementation of economic and fiscal reforms. It noted that the liberalization of the exchange rate, sovereign debt issuance, and multilateral and bilateral support have helped increase foreign currency reserves from $19.4bn in October 2016 to $31.1bn in May 2017. It estimated foreign reserves to currently cover around six months of current external payments, up from less than three months over the 2012-15 period, reflecting rising reserves and a narrowing current account deficit. In parallel, the agency indicated that public finances would remain a key weakness of Egypt's sovereign credit profile. It considered the government's budget assumptions for FY2017/18 to be broadly realistic with a fiscal deficit target of 9% of GDP and a primary balance that is close to equilibrium. But it expected authorities to miss the inflation target of 15.2% in FY2017/18, which it projects at close to 20%. It noted that the elevated inflation rate may lead to spending pressure, which could result in a wider-than-anticipated fiscal deficit. It forecast the public debt level to regress from 100% of GDP by the end of FY2016/17 to 93% of GDP in FY2017/18, in case real GDP growth reaches 4.5% during the year, the inflation rate continues to decline and the primary balance improves.

Source: Fitch Ratings

OMAN

Outlook on sovereign ratings revised to 'negative'

Fitch Ratings affirmed at 'BBB' Oman's long-term foreign and local currency Issuer Default Ratings, and revised the outlook on the ratings from 'stable' to 'negative'. It attributed the revision to the deterioration in the country's fiscal and external balances and to a contraction in economic activity. It estimated the fiscal deficit to have widened from 16.6% of GDP in 2015 to 21.4% of GDP in 2016, the highest among all Fitch-rated sovereigns, mainly due to higher-than-budgeted spending on defense and infrastructure. But it expected the deficit to narrow to 11.9% of GDP in 2017 in case oil prices recover, expenditures are contained and new hydrocarbon projects are implemented. In parallel, the agency indicated that Oman's external balance sheet has come under pressure as the government continues to issue debt and uses its foreign assets to finance the fiscal and external deficits and support foreign currency reserves at the Central Bank of Oman. It anticipated Oman's net foreign assets to regress from a peak of 58% of GDP in 2015 to 14% of GDP in 2018. In parallel, IHS Markit downgraded Oman's short-term sovereign credit risk rating from 15 to 20, which translates to a downgrade from 'A+' to 'A' on the generic scale. It maintained the medium-term sovereign credit risk rating at 35, equivalent to 'BBB' on the generic scale. IHS kept the 'negative' outlook on both ratings. It attributed the downgrade to the deterioration in the net asset position of Oman's banking sector. It noted that Oman's short-term rating remains in the investment grade category, mainly due to adequate reserves at the Central Bank, manageable debt and debt-service burdens, stable political environment and prudent economic policies.

Source: Fitch Ratings, IHS Markit

DEM REP CONGO

Ratings constrained by weak institutions and political uncertainty

Moody's Investors Service indicated that the Democratic Republic of Congo's (DRC) 'B3' rating and 'stable' outlook balance the country's high growth potential in the agricultural and hydroelectricity sectors, with institutional weakness and political uncertainty. But it pointed out that the mining sector continues to dominate the DRC's economy, and that the drop in global copper prices has reduced the country's real GDP growth rate from 6.9% in 2015 to 2.4% in 2016, led to a wider-than-expected fiscal deficit, as well as contributed to the depreciation of the currency and, in turn, to inflationary pressure. But it anticipated economic growth to recover to 3.5% in 2017 and 5% in 2018, in case mining activity gradually increases and commodity prices remain stable. Moody's indicated that risks to the country's outlook include lower-than-expected commodity prices, a delay in foreign investment, or capital outflows stemming from political instability, as well as slower economic activity in China, the country's main trade partner. Further, it noted that the DRC has a low public debt level compared to many 'B'-rated peers. In parallel, the agency indicated that factors that could put downward pressure on the ratings include a decline in commodity prices that increases the potential for a balance of payments crisis, a drop in foreign currency reserves, a large deterioration in public finances and political instability.

Source: Moody's Investors Service

QATAR

Economy adapting to the new realities

Standard Chartered Bank anticipated that the recent political developments between Qatar and other Arab countries would have a limited impact on the Qatari economy. It noted that the cut in diplomatic and trade ties with Qatar has not significantly impacted its hydrocarbon exports, given that LNG tankers continue to maintain their regular routes to export destinations, mainly to Asia and Europe. Also, it said that the UAE and Egypt have continued to import gas from Qatar despite the existing rift. In parallel, it indicated that Qatar was able to secure alternative sources of food supplies from Turkey and other countries. But it anticipated that food prices and the cost of building materials to rise. Further, it pointed out that capital outflows from Qatar have accelerated following the crisis, which has increased foreign currency demand from offshore trades. It noted that the Qatar Central Bank (QCB) has injected foreign currency into the economy to satisfy demand in the onshore market, but has refrained from making foreign currency liquidity available to satisfy offshore demand. As such, it anticipated the divergence in the exchange rate between onshore and offshore markets to persist until the QCB provides additional foreign currency liquidity. Overall, it expected the Qatari economy to adapt to the new conditions in case the political rift persists over a prolonged period of time. It projected the government to adjust its development plans and to modify the business models of its key industries to the new realities. However, it cautioned that raising external debt to finance infrastructure spending related to the 2022 FIFA World Cup will likely become more expensive. In parallel, it anticipated Qatar's external position to continue to weaken.

Source: Standard Chartered Bank

MOROCCO

Currency liberalization to have limited impact on banking sector

Fitch Ratings considered that the planned partial liberalization of Morocco's exchange rate regime would have a limited impact on the country's banking sector. It did not expect banks to face higher currency-related risks from increased exchange rate volatility because the banks' exposure to foreign currency in their domestic businesses is limited, their foreign currency lending is almost completely trade-related, their foreign currency deposits are very low and their use of international capital markets is minimal. It added that the banks' net open foreign currency positions are modest and usually amount to less than 5% of their equity. In parallel, the agency expected authorities to gradually introduce the new exchange rate regime, which would result in some currency volatility. It added that the risks of a sharp adjustment of the dirham are low as the current exchange rate is consistent with fundamentals. It said that Morocco's foreign currency reserves are sufficient in case of financial stress. Further, Fitch noted that small- and medium-sized traders would be the most affected by a weakening of the local currency, as they have limited access to hedging instruments. But it expected traders to transfer the increase in import costs to customers given the short-term nature of their forward purchase orders. It did not anticipate exchange-rate movements to lead to a surge in loan impairments in SME loan portfolios at the largest banks. Also, it said that larger Moroccan importers would not face any difficulty in servicing their foreign currency loans following the currency liberalization, as they use hedging instruments. The agency expected reforms related to the exchange rate to begin in the second half of 2017, with a long rollout period.

Source: Fitch Ratings

BAHRAIN

Agency affirms five banks' ratings and outlook

Capital Intelligence Ratings (CI) affirmed the long-term foreign currency rating (FCR) of Gulf International Bank (GIB) at 'A+', that of the Arab Banking Corporation (ABC) at 'BBB+', the FCR of United Gulf Bank (UGB) and of Investcorp Bank at 'BBB', and that of the National Bank of Bahrain (NBB) at 'BB+'. In addition, the agency affirmed at 'BBB+' the financial strength rating (FSR) of GIB, ABC and NBB, and at 'BBB' the FSR of UGB and Investcorp. Also, it maintained the 'stable' outlook on the ratings of GIB, ABC, Investcorp and NBB, and a 'negative' outlook on those of UGB. CI pointed out that ABC's FSR is supported by the bank's solid capital adequacy ratio, adequate asset quality, comfortable liquidity levels, geographically diversified assets and ease of access to capital markets. It added, however, that ABC's FSR is constrained by the banks' dependence on wholesale funding, concentrated deposit base, low net profitability, high credit risk and challenging operating conditions in the banks' main markets. Further, the agency indicated that GIB's FSR is supported by its solid capital adequacy, strong liquidity levels, good access to capital markets and a geographically diversified balance sheet, but are constrained by rising non-performing loans amid high credit and liquid risks across the GCC, as well as by ongoing weak profitability and concentrated deposits base and loan book.

Source: Capital Intelligence Ratings

NIGERIA

Additional exchange rate adjustment needed

Citi considered that additional adjustments to the exchange rate in Nigeria is required in order to clear the market and support economic activity in the second half of 2017. It noted that the Central Bank of Nigeria (CBN), rather than devaluing the naira, introduced in April 2017 a foreign exchange window for investors and exporters as part of its policy to create multiple exchange rates to improve access to foreign currency. It considered that the recent foreign exchange window could become the dominant exchange rate, which would imply an effective devaluation of the naira. It noted that the naira is currently trading at about NGN375 against the US dollar on the new exchange window compared to an official exchange rate of about NGN305 per dollar. It estimated that a devaluation of the official rate to NGN375 per dollar would be insufficient to clear the market. As such, it said that a currency devaluation to more than NGN400 per dollar would help attract new portfolio inflows to the local debt and equity markets, which, in turn, could allow the naira to strengthen again as the currency market clears and the economy recovers. Further, Citi considered that the CBN's monetary policy response to a currency adjustment of such magnitude is unclear. It noted that the CBN has tightened its monetary policy since mid-2016 in response to rising inflation and to support the currency. It anticipated a naira adjustment to have a limited impact on the inflation rate, as several companies are already pricing goods and services on the parallel exchange market that is significantly wider than the official rate, amid foreign currency shortages.

Source: Citi

CÔTE d'IVOIRE

NPL ratio at 9%, provisions at 71.1%

Figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Côte d'Ivoire reached 8% at the end of 2016, relative to 8.2% at the end of 2015 and to 10.1% at end-2014. Also, four out of 23 banks in Côte d'Ivoire failed to meet the 8% minimum regulatory capital requirement at end-2016. The banking sector's liquid assets accounted for 50.8% of total assets at the end of 2016 compared to 52% a year earlier, while they were equivalent to 73.8% of total deposits at end-2016, up from 71% at end-2015. In addition, the banks' loans were equivalent to 56.2% of their total assets at the end of 2016 compared to 55.7% a year earlier. The sector's loans-to-deposits ratio stood at 81.7% at the end of 2016 relative to 76.1% at the end of 2015. The NPL ratio was 9% at end-2016, down from 10.6% at end-2015. Also, the banks' provisions-to-NPLs ratio stood at 71.1% at end-2016 compared to 68.6% at end-2015. The banks' NPLs net of provisions were equivalent to 2.8% of total loans and to 36.5% of capital at end-2016, down from 3.8% of total loans and 47% of capital at end-2015. The IMF noted that Côte d'Ivoire's banking system remains generally sound, and that credit expansion is slowing down to more sustainable levels due to the banks' lower capital buffers and to monetary policy tightening. It projected lending growth to decelerate to about 14% to 15% during the 2017-19 period from growth rates of 30% in 2015 and 15.5% in 2016.

Source: International Monetary Fund

ENERGY / COMMODITIES

Oil prices to remain subdued in second half of 2017

Crude oil prices increased to a two-week high of about $47 per barrel (p/b) on June 29, extending a rally into a sixth straight day, after a decline in weekly U.S. oil production eased concerns about deepening oversupply in the global oil market. U.S. government data showed that domestic crude oil production regressed by 100,000 barrels per day (b/d) to 9.3 million b/d last week, the steepest weekly drop since July 2016. Crude Oil-Brent Dated prices have closed between $44 p/b and $57 p/b so far in 2017, driven in part by fluctuations in the US dollar against major currencies and by expectations related to the impact of production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries. Samba Financial Group indicated that oil prices have failed to rally, despite the OPEC agreement, as markets had been expecting deeper supply cuts. It pointed out that there is widespread optimism among investors that a substantial amount of the stock overhang will be reduced through the first quarter of 2018, despite rising U.S. output. Samba forecast Brent oil prices to average $55 p/b in 2017 and to slightly rise to $58 p/b in 2018, based on expectations of strong compliance with the agreed production cuts, and a tightening of market oversupply that could lead prices towards $60 p/b in coming months. Downside risks to the price outlook include a lower-than-anticipated narrowing of the market oversupply, which could contain prices in the $45 p/b to $50 p/b range.

Source: Samba Financial Group, Nasdaq, Byblos Research

OPEC's output cut generates $1.6bn per day in revenues amid higher oil prices

The Organization of the Petroleum Exporting Countries (OPEC) generated an average of $1.64bn per day in the first half of 2017, up by more than 10% from the second half of 2016 and by 43% from the first half of 2016. The increase in OPEC's revenues in the first half of 2017 is mainly due to the group's decision in November 2016 to cut its overall production by 1.2 million barrels per day, which supported oil prices. This constituted OPEC's first oil output cut in eight years. OPEC members, Russia and other non-OPEC oil producers agreed on May 25, 2017 to extend production cuts until March 2018, following an initial deal inked in late 2016 to keep cut output levels for the first half of 2017.

Source: Thomson Reuters

Middle East accounts for 18% of world's natural gas production in 2016

BP estimated the Middle East region's aggregate natural gas production at 637.8 billion cubic meters (bcm) in 2016, up by 3.6% from the previous year, and equivalent to 18% of the world's natural gas supply. Iran's production reached 202.4 bcm, or 31.7% of the region's total output last year, followed by Qatar with 181.2 bcm (28.4%), Saudi Arabia with 109.4 bcm (17.2%), the UAE with 61.9 bcm (9.7%) and Oman with 35.4 bcm (5.6%).

Source: BP, Byblos Research

ME&A's oil demand to rise by 2% in 2017

Crude oil consumption in the Middle East & Africa region is forecast to average 12.28 million b/d in 2017, which would reflect a growth of 1.7% from 12.07 million b/d in 2016. The region's demand for oil in 2017 would account for 38.4% of demand in developing countries and for 12.7% of global consumption.

Source: OPEC, Byblos Research

Base Metals: Copper prices at three-month high

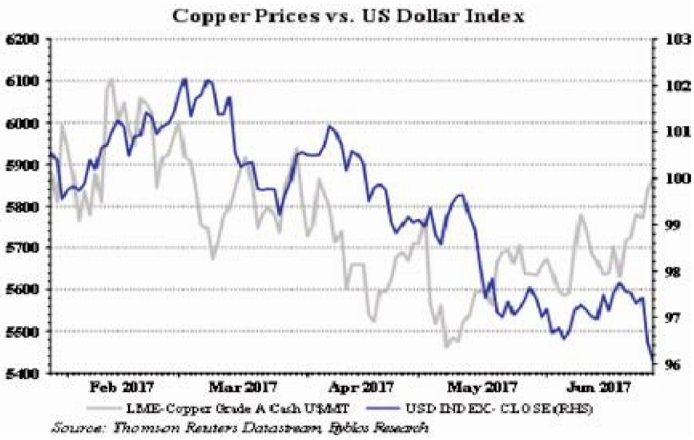
The LME cash price of copper reached $5,867 per ton in late June 2017, its highest level since early April, due to lower supply and a weaker US dollar. In fact, a weaker US dollar makes dollar-denominated commodities such as copper more affordable for buyers holding other currencies. Also, LME copper stockpiles have decreased to about 250,000 tons, the lowest level since early March 2017 and reflecting a drop of 100,000 tons since early May 2017. Copper prices averaged about $5,748 a ton in the first half of 2017 and are anticipated to trade at around this level for the remainder of 2017, with prices expected to average $5,700 a ton in the third quarter and $5,600 a ton in the fourth quarter of 2017. Overall, the metal's average cash price is forecast to rise from $4,867 a ton in 2016 to $5,695 a ton in 2017 and $5,675 a ton in 2018. In parallel, copper mine production has partly normalized following multiple supply disruptions in the first quarter of 2017, and it is expected to rebound in the near term and through 2018, even though disruptions risks persist. Further, mining companies operating in Chile, the world's largest producer of mined copper, are exploring the feasibility to restart projects that were put on hold in recent years due to the drop in the price of copper. In parallel, a rebound in copper demand would need to come from higher electric grid investment in China, the world's largest copper consumer, along with higher construction activity.

Source: Deutsche Bank, Thomson Reuters, Wall Street Journal

Precious Metals: Gold prices to average $1,259 an ounce in 2017

The gold bullion spot price averaged $1,239 a troy ounce so far in 2017, closing at a low of $1,156 an ounce in early January and a high of $1,295 an ounce in early June. The metal's global physical demand is forecast to rise by 3.4% to 3,671.1 tons in 2017, supported by a year-on-year rise of 3.5% in jewelry demand. In parallel, global gold output is projected to drop by 1.8% to 4,435.8 tons in 2017, mainly due to a decline in mine production. The gold market is projected to post an annual average surplus of 773 tons during the 2017-18 period, but it is expected to narrow gradually afterwards on improving demand from the jewelry sector and on stronger demand from retail investors. Overall, gold prices are projected to increase from an average of $1,251 an ounce in 2016 to $1,259 an ounce in 2017, partly driven by an expected recovery in the metal's physical demand this year. The improving sentiment towards gold in the context of prevailing geopolitical uncertainties would also support gold prices.

Source: Thomson Reuters GFMS, 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	-4.1	71.6	43.1	142.7	-	-	-4.3	-3.5
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 Stable	- -	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 Positive	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+ Negative	- -	B+ 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	B+ Stable	- -	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- Negative	Ba2 Stable	BB+ Negative	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- Stable	- -	CC+ Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB- Negative	B1 Stable	- -	BB- Negative	BB+ Stable	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA Stable	Aa2 Stable	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	BB+ Negative	Baa1 Stable	BBB Negative	BBB+ Stable	BBB Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA- CWN***	Aa3 Stable	AA CWN***	AA- Negative	AA- Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A- Stable	A1 Stable	A+ Stable	A+ Stable	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 Stable	- -	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 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 (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	Stable	Stable	-	Stable	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
China	AA-	A1	A+	-	A								
	Stable	Negative	Stable	-	Stable	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	CWN***	Stable	-	Negative	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
Turkey	BB	Ba1	BB+	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	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 estimates for 2016

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	1.00-1.25	14-Jun-17	Raised 25bps	26-Jul-17
Eurozone	Refi Rate	0.00	08-Jun-17	No change	20-Jul-17
UK	Bank Rate	0.25	15-Jun-17	No change	03-Aug-17
Japan	O/N Call Rate	-0.10	16-Jun-17	No change	20-Jul-17
Australia	Cash Rate	1.5	06-Jun-17	No change	04-Jul-17
New Zealand	Cash Rate	1.75	21-Jun-17	No change	09-Aug-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Jun-17	No change	14-Sep-17
Canada	Overnight rate	0.50	24-May-17	No change	12-Jul-17
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.50	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	22-Jun-17	No change	29-Sep-17
South Korea	Base Rate	1.25	25-May-17	No change	13-Jul-17
Malaysia	O/N Policy Rate	3.00	12-May-17	No change	13-Jul-17
Thailand	1D Repo	1.50	24-May-17	No change	05-Jul-17
India	Reverse repo rate	6.25	07-Jun-17	No change	02-Aug-17
UAE	Repo rate	1.50	14-Jun-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	21-May-17	Raised 200bps	06-Jul-17
Turkey	Base Rate	8.00	15-Jun-17	No change	27-Jul-17
South Africa	Repo rate	7.00	25-May-17	No change	20-Jul-17
Kenya	Central Bank Rate	10.00	29-May-17	No change	25-Jul-17
Nigeria	Monetary Policy Rate	14.00	23-May-17	No change	25-Jul-17
Ghana	Prime Rate	22.50	22-May-17	Cut 100bps	24-Jul-17
Angola	Base rate	16.00	01-Jun-17	No change	30-Jun-17
Mexico	Target Rate	7.00	22-Jun-17	Raised 25bps	10-Aug-17
Brazil	Selic Rate	11.25	31-May-17	Cut 100bps	26-Jul-17
Armenia	Refi Rate	6.00	27-Jun-17	No change	15-Aug-17
Romania	Policy Rate	1.75	05-May-17	No change	30-Jun-17
Bulgaria	Base Interest	0.00	01-Jun-17	No change	30-Jun-17
Kazakhstan	Repo Rate	10.50	05-Jun-17	Cut 50bps	17-Jul-17
Ukraine	Discount Rate	14.00	25-May-17	Cut 100bps	06-Jul-17
Russia	Refi Rate	9.00	16-Jun-17	Cut 25bps	28-Jul-17

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