

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Trading in Credit Default Swaps down 5% to \$359bn in third quarter of 2017

Trading in emerging markets Credit Default Swaps (CDS) reached \$359bn in the third quarter of 2017, constituting an increase of 38% from \$261bn in the second quarter of 2017 and a drop of 5% from \$376bn in the same quarter last year. The most frequently traded sovereign CDS contracts in the third quarter of 2017 were those of Brazil at \$43bn, followed by Turkey at \$33bn and China at \$29bn. As such, traded sovereign CDS contracts on Brazil accounted for 12% of total trading in emerging market CDS in the covered quarter, followed by CDS contracts on Turkey (9.2%) and China (8.1%). The most frequently traded corporate CDS contracts in the third quarter of 2017 were those of Brazil's Petrobras at \$2.5bn, which accounted for 0.7% 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 13 major international banks and broker-dealers.

Source: EMTA

SAUDI ARABIA

Profits of listed companies up 12% to \$24bn in first nine months of 2017

The cumulative net income of 171 companies listed on the Saudi Arabia Stock Exchange, or Saudi Tadawul, totaled SAR89bn, or \$23.7bn, in the first nine months of 2017, constituting an increase of 12.1% from SAR79.4bn, or \$21.2bn in the first nine months of 2016. Net profits of the listed companies totaled \$8.2bn in the first quarter of the year, \$6.8bn in the second quarter and \$8.8bn in the third quarter of 2017. Listed banks generated net profits of \$9.2bn and accounted for 38.6% of total net earnings in the first nine months of the year. Basic materials companies followed with \$6.1bn (26%), then utilities with \$3.4bn (14.1%), telecom firms with \$1.9bn (7.8%) and the food & beverage industry with \$802.7m (3.4%). Further, the net earnings of utilities increased by 94% year-on-year in the first nine months of 2017, followed by capital goods corporates (+30%), telecom companies (+20.8%), pharmaceuticals, biotechnology & life science firms (+16.8%), the food & beverage industry (+9.2%), energy firms (+6.5%), basic materials companies (+5.5%), banks (+3.2%) and healthcare equipment & services firms (+2%). In parallel, financial services institutions shifted from losses of \$105m to profits of \$171.1m in the first nine months of 2017, while media firms shifted from losses of \$12.9m in the first nine months of 2016 to profits of \$0.4m. In contrast, the profits of consumer goods corporates fell by 97.5% year-on-year in the first nine months of the year, followed by real estate management & development corporates (-30.1%), consumer services companies (-27.9%), retailers (-20.5%), transportation firms (-19.7%), insurers (-14.2%) and commercial & professional services companies (-13.5%). In parallel, the earnings of food & staples retailers were unchanged from the first nine months of 2016.

Source: KAMCO

MENA

Three Arab countries on EU tax haven list

In its first list of tax heavens around the world, the Council of the European Union (EU) included Bahrain, Tunisia and the United Arab Emirates among 17 non-cooperative jurisdictions on tax related issues. The Council considered that 17 countries failed to meet tax good governance standards set by the EU. It noted that it will contact all jurisdictions that have been blacklisted to explain the decision and to advise them about the steps that they have to take in order to be de-listed. It pointed out that EU member-states could impose defensive measures against the 17 countries in order to minimize tax evasion. The EU indicated that it published its first blacklist of tax havens in order to promote good governance and maximize efforts to prevent tax fraud and tax evasion. It based its assessment on three criteria that are tax transparency, fair taxation, and the implementation of anti-tax base erosion and profit-shifting measures. In parallel, the EU stated that 47 other countries, including Jordan, Morocco, Oman and Qatar, have committed to address deficiencies in their tax systems and to meet the required EU criteria. It added that these countries need to meet the EU criteria by the end of 2018, or in some cases by 2019, to avoid being blacklisted.

Source: European Union

GCC

Aggregate value of active construction projects at \$2.43 trillion as at November 2017

The Business News for Construction (BNC) Network indicated that the aggregate value of 22,680 active construction projects in Gulf Cooperation Council (GCC) countries exceeded \$2.43 trillion in November 2017. It said that that active construction projects in GCC countries represent 85% of the number of active projects in the Middle East & North Africa region and 68% of the value of projects in the region. It noted that the aggregate value of urban construction projects was \$1.21 trillion, or 49.8% of the total, reflecting the GCC countries' efforts to carry out infrastructure projects in order to diversify their economies. It added that the value of transport projects in the GCC region reached \$387.6bn, or 16% of the total, as at November 2017, followed by oil & gas projects with \$337bn (13.9%), utility projects with \$313bn (12.9%) and industrial projects with \$178.6bn (7.3%). It also noted that a total of 142 active GCC projects with an estimated value of \$10.4bn moved to the construction stage in October 2017, while 670 active projects worth \$15.2bn were completed during the same month. In addition, BNC indicated that 269 construction projects with a combined value of \$82.9bn were announced in the GCC in the third quarter of 2017.

Source: BNC Network

OUTLOOK

BAHRAIN

Economic growth constrained by fiscal consolidation and investor sentiment

The Institute of International Finance projected Bahrain's real GDP growth at 2.9% in 2017, supported by investment in infrastructure projects that are funded by the \$10bn GCC Development Program. It noted that growth would have been significantly lower in the absence of such investments. It added that fluctuations in oil production have a limited impact on Bahrain's growth, given its diversified economy. It forecast growth to decelerate to 2.5% in 2018 due to fiscal consolidation and weak investor sentiment, and to average between 2% and 2.5% in the long term. It expected hydrocarbon sector growth to be flat in 2017 and to reach 1% in 2018, while it anticipated non-hydrocarbon sector activity to expand by 3.6% in 2017 and 2.9% next year.

In parallel, the IIF forecast the fiscal deficit to narrow from 17.8% of GDP in 2016 to 12.8% of GDP in 2017, supported by an increase in oil prices and a modest cut in spending. It anticipated the introduction of the value-added tax to increase revenues by 1% of GDP in 2018, and to help narrow the deficit to 10% of GDP next year. It estimated Bahrain's fiscal breakeven oil price at \$95 p/b in 2018, which exceeds current oil prices by about \$35 p/b. Further, it forecast the public debt level to rise from 82.1% of GDP at the end of 2016 to 94.8% of GDP at end-2018. It considered that the rapid increase in the debt level raises concerns about the sustainability of the debt path.

In addition, the IIF noted that foreign currency reserves declined from \$6bn at the end of 2014 to \$1.4bn at end-August 2017, but have recovered to \$3.4bn at end-September due to an international bond sale of \$3bn. It forecast reserves to reach \$3.2bn at end-2018. It noted that the Bahraini dinar has the highest risk of de-pegging among GCC countries, but it said that authorities are committed to preserve the currency peg to the US dollar, while Saudi Arabia would provide financial support in case of need.

Source: Institute of International Finance

SAUDI ARABIA

Positive outlook on insurance sector

Regional investment bank EFG Hermes considered that Saudi Arabia's insurance market is structurally attractive in the long term, as the property & casualty (P&C) and the life insurance segments have room for growth. It indicated that the insurance penetration rate in the Kingdom is currently at 1.6% of GDP compared to 2.9% in the UAE, 5.6% in Asia and 6.3% globally. It expected the low oil price environment and fiscal constraints, which are leading to a decline in social benefits, to motivate Saudi nationals to buy protection and retirement products from insurers. In addition, it anticipated the development of the mortgage market to result in higher demand for voluntary insurance. However, it said that weak expertise in the P&C market and increased government-sponsored social security benefits constitute challenges to the expansion of the insurance sector.

Also, EFG Hermes anticipated the motor insurance segment to outperform the medical insurance sector due to stricter enforcement of motor insurance and the lifting of the ban on female drivers, which will help double motor premiums by 2020. It also

projected the motor penetration rate to increase from 45% currently to 75% by 2020. In turn, it forecast gross written premiums in the motor sector to grow by a compound annual growth rate of 24% between 2017 and 2020. However, it expected headwinds in the motor segment to persist, as the Saudi Arabian Monetary Agency (SAMA) attempts to reduce motor premium rates.

EFG Hermes added that the short-term outlook of the medical insurance sector is challenging, given that the Kingdom's weak macroeconomic conditions would weigh on the profitability of Saudi corporates, force companies to lay-off staff, and constrain households' purchasing power, which would all lead to lower demand for medical insurance. As such, it projected the medical sector's gross written premiums to grow by only 2% in 2017. However, it expected medical premiums to increase by 5% in 2018 and 11% in 2019, mainly due to higher enforcement of mandatory insurance in the private sector and the imposition of medical insurance for religious tourists.

Source: EFG Hermes

SUDAN

Growth prospects constrained by structural factors

The International Monetary Fund considered that policy adjustments in Sudan have been insufficient to ensure sustained macroeconomic stability, especially given limited external financing and the withdrawal of relations by correspondent banks. It projected real GDP growth to slightly decelerate from 3.5% in 2016 to 3.2% in 2017 due to weaker domestic demand, but expected it to accelerate to 4% and 3.7% in 2018 and 2019, respectively, supported by the mining and agriculture sectors, as well as by the lifting of U.S. sanctions. However, it said that growth prospects continue to be constrained by the lack of progress towards debt relief, the absence of comprehensive economic reforms, an over-valued exchange rate, a weak business environment, limited access to external financing, and elevated inflation rates. It expected the inflation rate to average 23% in 2018 relative to an anticipated 29.8% this year. The IMF considered that risks to the outlook include maintaining the suspension of correspondent bank relations, the end of financial support from Gulf Cooperation Council countries, elevated tensions with South Sudan, and lower oil production in South Sudan.

In parallel, the Fund projected the fiscal deficit at 1.8% of GDP in 2017 and 2.1% of GDP in 2018. It called on authorities to commit to reforms to achieve fiscal sustainability and reduce the inflation level, and to take advantage of the permanent lifting of U.S. sanctions on trade and financial flows. It added that the public and external debt remain high and unsustainable, and that most of the external debt is in arrears. It forecast the external debt level at 95% of GDP in 2017 and 97.7% of GDP in 2018.

In parallel, it projected the current account deficit to widen from 5.4% of GDP in 2017 to 6.4% of GDP in 2018, as higher investments resulting from the lifting of the sanctions would lead to higher import demand. But it noted that the deficit would narrow over the medium term in case higher investments improve exports. It projected foreign currency reserves to reach \$970m, or 1.4 months of import coverage, at end-2017, and \$830m, or 1.1 months of import coverage, at end-2018.

Source: International Monetary Fund

ECONOMY & TRADE

OMAN

Ratings downgraded on deteriorating public finances and weakening external position

Fitch Ratings downgraded Oman's long-term foreign-currency Issuer Default Rating (IDR) from 'BBB' to 'BBB-' and maintained at 'negative' the outlook on the ratings. It noted that the downgrade and 'negative' outlook reflect the country's wide fiscal deficit, weakening balance sheet and deteriorating external position. It forecast the fiscal deficit to narrow from 21.4% of GDP in 2016 to 12.8% of GDP in 2017, but to remain one of the widest among rated sovereigns. It projected the deficit to narrow gradually to 10.2% of GDP by 2019, reflecting broadly flat government expenditures in the 2018-19 period following a 15% decline in 2015-17. It noted that the government's desire to preserve social stability would constrain fiscal consolidation efforts. Further, the agency forecast the public debt level to rise from 13% of GDP at end-2015 to 41% of GDP at the end of 2017 and to 55% of GDP at end-2019, and for sovereign net foreign assets to decline from 16% of GDP at end-2017 to -4% of GDP at the end of 2019. It attributed the weakening of the sovereign balance sheet to increased external borrowing and drawdowns from the State General Reserve Fund of Oman (SGRF). It projected foreign assets of the SGRF to decline from \$18.1bn in the third quarter of 2017 to \$16.1bn, or 20% of GDP, by 2019. In parallel, Fitch anticipated foreign currency reserves at the Central Bank of Oman to decline from \$16.9bn, or 4.3 months of current external payments, at the end of 2017 to \$13.3bn, or 3.4 months, at end-2019, while it projected net external debt to rise from 19% of GDP in 2017 to 40% of GDP by 2019.

Source: Fitch Ratings

DEM REP CONGO

Outlook on ratings revised to 'negative'

Moody's Investors Service affirmed at 'B3' the long-term issuer rating of the Democratic Republic of Congo (DRC) and revised the outlook from 'stable' to 'negative'. It attributed the outlook revision to the significant increase in macroeconomic volatility and a decline in commodity prices, amid deepening political divisions related to the postponement of the presidential elections. It said that domestic political uncertainties are adversely affecting the economy, international support to the DRC, and the country's credit profile. It added that this could further affect the economy as large foreign investments would likely be delayed until after the presidential elections that have been postponed until December 2018. It noted that the DRC has been unsuccessful in securing external financial support amid the prevailing domestic economic and political conditions. It indicated that foreign currency reserves fell from \$1.4bn in 2015 to a low of \$660m or 2.6 weeks of imports cover in July 2017. It added that the government relied on advances from the Banque Centrale du Congo (BCC) to fund a share of the deficit after it exhausted most of its existing financial buffers, including deposits in the banking system. In this context, it said that the franc depreciated by 70% from CDF925 per dollar in June 2016 to CDF1575 per dollar at the end of October 2017. But it noted that the exchange rate has been broadly stable over the past four months, while the inflation rate stabilized at about 40% due to restrictions in public spending.

Source: Moody's Investors Service

CÔTE d'IVOIRE

Growth to exceed 7% annually in 2017-19

The International Monetary Fund indicated that Côte d'Ivoire's economic performance has been strong in 2017, as the economy was able to manage trade shocks and social tensions. It projected real GDP growth to exceed 7% annually during the 2017-19 period, with broadly balanced risks to the outlook. It forecast the fiscal deficit at 4.5% of GDP in 2017 and expected it to narrow to around 3% of GDP in 2019, in line with the convergence criteria of the West African Economic and Monetary Union countries. Further, the Fund welcomed the authorities' progress in the implementation of structural reforms, such as strengthening public investment management, as well as monitoring fiscal risks emerging from public enterprises and public-private partnerships. It encouraged the government to maintain debt sustainability and to create the needed fiscal space to finance the National Development Program by improving tax revenues and strengthening the evaluation and prioritization of new investment projects. In addition, the IMF called on authorities to accelerate structural reforms that are crucial for private sector-led economic development, which would support economic growth and strengthen the country's regional economic status. It considered that the recently-implemented measures in the energy sector would improve its financial viability, while the recapitalization of a state-owned bank would contribute to financial sector stability. In parallel, the Fund indicated that the implementation of sound policies under the IMF-supported program helped secure the confidence of international financial markets, and enabled the successful Eurobond issuance in June 2017.

Source: International Monetary Fund

ARMENIA

Agreement with European Union is credit positive for the sovereign

Moody's Investors Service considered that the Comprehensive and Enhanced Partnership Agreement (CEPA) that Armenia signed with the European Union (EU) is credit positive for the country, as it strengthens the sovereign's institutions and raises its economic potential. It noted that the agreement would allow Armenia to benefit from technical assistance from the EU that would raise the country's competitiveness, promote sustainable development and address climate change-related challenges. First, the agency indicated that the agreement would raise the regulatory and product safety standards in line with EU and international standards, which would, in turn, attract foreign direct investment to Armenia. Second, it noted that Armenia would benefit from technical assistance in education, training and research & development from the EU, which would improve the quality of human capital and contribute to higher competitiveness and growth potential. Third, it pointed out that Armenia would receive technical assistance from the EU that would promote the development of clean energy sources and the use of energy-efficient products, which would reduce energy imports. In parallel, Moody's noted that the CEPA requires Armenia to undertake judicial, legal and public administration reforms to improve the effectiveness of its democratic institutions and the rule of law, enhance transparency and governance, and reduce corruption.

Source: Moody's Investors Service



BANKING

GCC

Stable outlook on region's banking sectors

Moody's Investors Service indicated that it has a stable outlook for banks in Gulf Cooperation Council (GCC) countries, as strong financial fundamentals, especially in the largest banking sectors in the region, mitigate profitability and loan quality risks resulting from slower economic activity. It said that the outlook on banks in Kuwait, Saudi Arabia and the UAE, which account for almost 75% of the region's assets, is stable. But it noted that banking sectors in Bahrain and Oman are challenged by their countries' fiscal position, while the diplomatic rift between Qatar and its GCC peers has severely weighed on the country's trade and tourism sectors and, in turn, on the asset quality of Qatari banks. Further, the agency pointed out that major infrastructure projects in the region, such as the Expo 2020 in Dubai, the World Cup 2022 in Qatar and the Saudi National Transformation Program, would support capital spending and lending growth, which it forecast at 5% in 2018. Also, it noted that the banks' capital metrics are stable and are significantly above Basel III minimum regulatory requirements, which would, together with high loan-loss provisions, provide banks with strong loss-absorbing capital buffers. In parallel, Moody's anticipated problem loans at GCC banks to increase in 2018 following subdued economic activity in 2017. It added that GCC banks will remain at risk of high borrower, loan concentration and uneven disclosure in the corporate sector. Also, it expected lower interest income and reduced fees and commissions to weigh on the banks' profitability.

Source: Moody's Investors Service

TURKEY

Capital buffers to support stable outlook on banks

Fitch Ratings indicated that it has a stable outlook on the Turkish banking sector in 2018 because it considered that the country's supportive economic framework and the banks' significant capital buffers allow the sector to absorb potential moderate shocks. Also, it noted that the outlook takes into account the banks' ability to continue to refinance their external debt. The agency expected lending growth to decelerate moderately in 2018 in the absence of another fiscal stimulus to support lending activity, which would weigh on the banks' profitability metrics. It projected the banks' non-performing loans (NPLs) ratio to slightly increase to a still moderate level, but it cautioned that market shocks or the default of large individual obligors could result in a steeper deterioration in the NPLs ratio. Also, it noted that the increase of lending in foreign currency, and the rise in 'watch-list' and restructured loans constitute significant risks to asset quality in the medium-term. In parallel, Fitch anticipated Turkish banks to continue to benefit from good market access in 2018, and to be able to rollover their foreign currency debt. It considered that banks are able to weather any potential short-term market closure due to their available foreign currency liquidity. But it cautioned that liquidity risks could significantly increase in the event of a sharp drop in investor sentiment from increased geopolitical or domestic risks. It said that the banks' ratings could be negatively impacted if U.S. investigations related to the alleged violation of Iranian sanctions by Turkish individuals result in reduced market access or large fines for banks.

Source: Fitch Ratings

JORDAN

Banking sector risks increase

S&P Global Ratings revised Jordan's banking sector from 'Group 7' to 'Group 8' under its Banking Industry Country Risk Assessment (BICRA), after it increased the economic risk score from '7' to '8' and affirmed the industry risk score at '7'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 8' include Argentina, Bolivia, Georgia, Honduras, Kazakhstan, Paraguay, Russia and Sri Lanka. S&P indicated that Jordanian banks face higher economic risks due to the country's weakening debt profile amid subdued economic growth, implementation pressures related to fiscal reforms, and higher external risks. Also, it expected credit conditions for banks to deteriorate, which would increase non-performing loans and credit losses, and reduce profitability. As such, it noted that Jordan's economic risk score reflects its "very high risk" in economic resilience and credit risk in the economy, as well as "high risk" in economic imbalances. It said that the trend for the economic risk is 'stable'. In parallel, S&P said that the industry score reflects the country's "high risks" in each of its institutional framework, competitive dynamics and system-wide funding. It indicated that banks are fully funded by customer deposits, but it noted that deposit growth has decelerated since 2014 due to external factors, such as low oil prices that are affecting remittance inflows. It said that the trend for the banking sector's industry risk is 'stable'.

Source: S&P Global Ratings

NIGERIA

Banks to benefit from higher oil prices

Moody's Investors Service indicated that Nigerian banks would benefit from a sustained recovery in global oil prices. First, it said that the banks' direct exposure to the oil & gas sector is high, with lending to the sector accounting for 33% of total loans at the end of June 2017. It estimated that more than 50% of the banks' exposure to the oil & gas sector is in the upstream and midstream segments, which are highly affected by the fluctuation in oil prices. It considered that a sustained increase in prices would improve the cash flow of both segments, which would help firms meet their obligations. Second, Moody's estimated that 47% of loans at Nigerian banks are denominated in foreign currency, which increases the banks' exposure to exchange rate risks. It noted that higher oil prices would help accumulate foreign currency reserves, which would support the value of the Nigerian naira. It forecast foreign currency reserves to increase from \$25.7bn at end-2015 to \$38bn at end-2017. Third, the agency indicated that fiscal spending in Nigeria is strongly dependent on oil revenues. As such, it anticipated higher oil prices to help the government meet its obligations to service providers and local governments. Also, Moody's noted that the banks' average non-performing loans (NPLs) ratio increased from 5.3% at the end of 2015 to 15% at the end of June 2017 because the low oil price environment contributed to an economic recession last year. However, it did not expect a significant decline in the NPLs ratio in the near term, given the banks' high concentration risks and exposure to other sectors facing challenges.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Rising U.S. oil output to slow market rebalance

ICE Brent crude oil front-month prices reached their highest level since mid-2015 to close at \$64.7 per barrel (p/b) on December 11, 2017, mainly due to the shutdown of the Forties pipeline in the North Sea and to a larger-than-expected drawdown of U.S. crude oil inventories. The shutdown of the pipeline has reduced significant supply from a market that is already tightening amid OPEC-led production cuts. Also, recent data released by the U.S. Energy Information Administration (EIA) showed that U.S. crude oil inventories dropped by 5.1 million barrels to 443 million barrels last week, their lowest level since October 2015, which supported oil prices. The oil market's outlook remains uncertain as investors expect that non-OPEC oil producers would continue to ramp up output and slow the rebalancing of the oil market. In fact, the EIA anticipated U.S. crude production to grow by an average of 800,000 b/d in 2018, while it projected Canada, Brazil, Norway, the United Kingdom and Kazakhstan to add another 700,000 b/d and OPEC producers to increase output by 200,000 b/d. The global oil market is expected to register a surplus in the first half of 2018, as rising U.S. supply would offset OPEC's efforts in maintaining its production cuts for the whole year. Brent oil prices are forecast to average \$58 p/b in the fourth quarter of 2017 and \$62 p/b in the first quarter of 2018.

Source: U.S. EIA, Thomson Reuters, Byblos Research

OPEC's oil basket price up 9% in November 2017

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged \$60.7 per barrel (p/b) in November 2017, constituting an increase of 9.3% from \$55.5 p/b in the preceding month. Nigeria's Bonny Light crude oil posted a price of \$63.3 p/b, followed by Algeria's Saharan blend at \$63.2 p/b and Angola's Girassol at \$63 p/b. All 14 prices included in the OPEC reference basket posted monthly increases that ranged from \$4.98 p/b to \$5.46 p/b in November 2017.

Source: OPEC, Byblos Research

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

Crude oil consumption in the Middle East & Africa region (ME&A) is forecast to average 12.28 million b/d in 2017, which would constitute a growth of 1.7% from 12.07 million b/d in 2016. The region's demand for oil would represent 38.5% of demand in developing countries and for 12.7% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.1 million b/d in 2017, unchanged from 2016.

Source: OPEC, Byblos Research

Non-OPEC supply nearly unchanged at 18.47 million b/d in 2018

Barclays Capital expected non-OPEC oil supply to average 18.47 million barrels per day (b/d) in 2018, nearly unchanged from an estimated 18.41 million b/d in 2017. It projected non-OPEC supply in 2018 to exceed the pledged level of 18.13 million b/d under the OPEC and non-OPEC oil production agreement. It anticipated Russia's oil output to reach 11.4 million b/d next year and to account for 61.7% of total non-OPEC production, followed by Mexico with 2.2 million b/d (11.9%), Kazakhstan with 1.86 million b/d (10.1%) and Oman with one million b/d (5.4%).

Source: Barclays Capital

Base Metals: Zinc prices contingent on Chinese demand

LME zinc 3-month future prices averaged \$2,861.1 per ton in the first 11 months of 2017, up by 39.7% from \$2,047.6 a ton in the same period of 2016, due to increased Chinese demand and moderate growth in demand from the United States amid tight mine supply conditions and limited inventories. Zinc prices are forecast to increase from an average of \$3,250 a ton in the fourth quarter of 2017 to \$3,300 a ton in the first quarter of 2018, driven by sustained production deficits in China, the world's largest producer of zinc. Also, seasonal cuts and closures of mines in China's Northern Inner Mongolia, as a result of the severe winter season, are expected to weigh on the metal's supply. Further, zinc prices are projected to average \$3,225 a ton in 2018, driven by increased production in India and in other major producers, and by expectations of environmental regulations to combat pollution, which could lead to subdued demand over the coming heating season. Downside risks to the metal's price outlook include lower Chinese demand for the metal. Also, the Chinese infrastructure and property sectors are showing signs of subdued growth and are expected, alongside the government's growing emphasis on deleveraging, to post flat growth in 2017, which would cap the metal's price. In parallel, the Bloomberg Zinc Total Return Sub-Index dropped by 3.5% in November 2017 but rose by 23.1% in the first 11 months of the year.

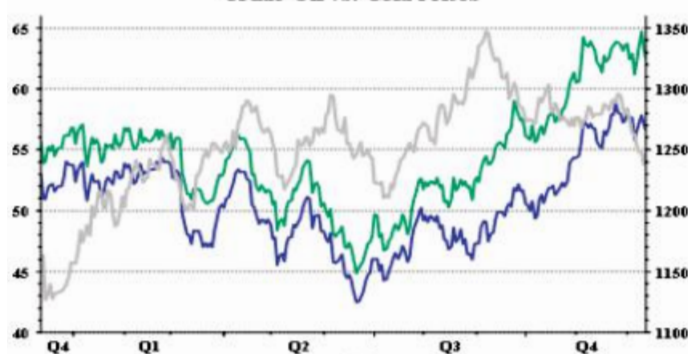
Source: Standard Chartered Bank, Thomson Reuters, Bloomberg

Precious Metals: Palladium outperforms other precious metals in first 11 months of 2017

Palladium prices grew by 41.4% year-on-year to an average \$856.7 per troy ounce in the first 11 months of 2017. The surge in the metal's price constitutes the largest rise among precious metals so far this year, and reflects strong Chinese autocatalyst demand for the metal, as well as the substantial production deficit in the palladium market in 2017. Overall, palladium prices increased from an average of \$765 an ounce in the first quarter of 2017 to \$796 an ounce in the second quarter and to \$878.7 an ounce in the third quarter, and are forecast to rise further to \$910 an ounce in the fourth quarter of the year. However, the metal's price is projected to decline to an average of \$860 an ounce in the first quarter of 2018, mainly due to expectations of slower Chinese car sales amid an increase in sales taxes on small-engine vehicles starting in January 2018. In parallel, the Bloomberg Platinum Total Return Sub-Index declined by a marginal 0.3% in November 2017 but rose by 7.7% in the first 11 months of the year.

Source: Standard Chartered Bank, Thomson Reuters, Bloomberg

Crude Oil vs. Gold Prices



Source: Thomson Reuters Datastream, 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-	B2	B	-	B+	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
	Stable	Stable	Negative	-	Negative								
Egypt	B-	B3	B	B	B-	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
		Stable	Stable	Stable	Stable								
Ethiopia	B	B1	B		B+	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
		Stable	Stable	Stable	-								
Ghana	B-	B3	B	-	B+	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
		Positive	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	-	Negative								
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
	Stable	Positive	Stable	-	Stable								
Nigeria	B	B2	B+	-	B+	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	Stable	Stable	Negative	-	Negative								
Sudan	-	-	-	-	CC	-2.5	55.2	47.5	-	-	-	-4.7	-
	-	-	-	-	Negative								
Tunisia	-	B1	B+	-	BB+	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	-	Negative	Stable	-	Stable								
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	Positive	-	Stable								
Middle East													
Bahrain	B+	B1	BB+	BB+	BB+	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	Stable	Negative	Negative	Negative	Negative								
Iran	-	-	-	BB-	BB-	0.7	29.2	2.0	-	-	-	5.3	-
	-	-	-	Stable	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	Negative	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	Negative	Stable								
Oman	BB	Baa2	BBB-	BBB+	BBB	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	Stable	Negative	Negative	Stable	Negative								
Qatar	AA-	Aa2	AA-	AA-	AA-	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	Negative	Negative	Negative	Negative	Stable								
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	-	-	-	-	-	-	-	-
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Negative	-	Stable	Stable								
Yemen	-	-	-	-	CCC	-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-								
	-	Stable	Stable	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	AA-	Aa3	A+	-	A								
	Stable	Negative	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	Negative	Stable	-	Negative	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB								
	Negative	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	-	Positive	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BB+	Ba1	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB	Ba1	BB+	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	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	1.25-1.50	13-Dec-17	Raised 25bps	31-Jan-18
Eurozone	Refi Rate	0.00	14-Dec-17	No change	25-Jan-18
UK	Bank Rate	0.50	14-Dec-17	No change	02-Feb-18
Japan	O/N Call Rate	-0.10	31-Oct-17	No change	21-Dec-17
Australia	Cash Rate	1.5	05-Dec-17	No change	06-Feb-18
New Zealand	Cash Rate	1.75	08-Nov-17	No change	08-Feb-18
Switzerland	3 month Libor target	-1.25-(-0.25)	14-Dec-17	No change	15-Mar-18
Canada	Overnight rate	1.00	06-Dec-17	No change	17-Jan-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-Sep-17	No change	28-Dec-17
South Korea	Base Rate	1.50	30-Nov-17	Raised 25bps	18-Jan-18
Malaysia	O/N Policy Rate	3.00	09-Nov-17	No change	25-Jan-18
Thailand	1D Repo	1.50	08-Nov-17	No change	20-Dec-17
India	Reverse repo rate	6.00	04-Oct-17	Cut 25bps	07-Feb-18
UAE	Repo rate	1.75	13-Dec-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.50	13-Dec-17	Raised 25bps	N/A
Egypt	Overnight Deposit	18.75	16-Nov-17	No change	28-Dec-17
Turkey	Base Rate	8.00	14-Dec-17	No change	24-Jan-18
South Africa	Repo rate	6.75	23-Nov-17	No change	18-Jan-18
Kenya	Central Bank Rate	10.00	28-Nov-17	No change	24-Jan-18
Nigeria	Monetary Policy Rate	14.00	21-Nov-17	No change	23-Jan-18
Ghana	Prime Rate	20.00	27-Nov-17	Cut 100bps	22-Jan-18
Angola	Base rate	18.00	04-Dec-17	Raised 200bps	31-Jan-18
Mexico	Target Rate	7.00	09-Nov-17	No change	14-Dec-17
Brazil	Selic Rate	7.00	06-Dec-17	Cut 50bps	02-Jan-18
Armenia	Refi Rate	6.00	14-Nov-17	No change	26-Dec-17
Romania	Policy Rate	1.75	07-Nov-17	No change	08-Jan-18
Bulgaria	Base Interest	0.00	01-Dec-17	No change	02-Jan-18
Kazakhstan	Repo Rate	10.25	27-Nov-17	No change	09-Jan-18
Ukraine	Discount Rate	14.50	14-Dec-17	Raised 100bps	25-Jan-18
Russia	Refi Rate	8.25	27-Oct-17	Cut 25bps	15-Dec-17



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