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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Tourist arrivals up 7% to 1.3 billion in 2017

Figures released by the World Tourism Organization (WTO) show that the number of international tourist arrivals reached 1.32 billion in 2017, constituting an increase of 6.7% from 1.24 billion in 2016. The growth in the number of tourist arrivals worldwide in 2017 was well above the annual average growth in arrivals of about 4% since 2010, and constituted the highest increase in seven years. The number of visitors to developed economies rose by 5.7% to 724 million in 2017, while the number of arrivals to emerging economies grew by 7.9% to 598 million last year. In parallel, the number of tourist arrivals to Europe reached 671.3 million and accounted for 50.8% of total tourist arrivals in 2017, followed by Asia & the Pacific with 323.7 million (24.5%), the Americas with 206.6 million (15.6%), Africa with 62.1 million (4.7%) and the Middle East with 58.3 million (4.4%). Also, the number of tourist arrivals to Europe increased by 8.4% in 2017, followed by visitors to Africa (+7.8%), Asia & the Pacific (+5.8%), the Middle East (+4.8%) and the Americas (+2.9%). Further, the WTO projected the number of international tourist arrivals to grow by about 4% to 5% in 2018. It anticipated the number of tourists in Africa to grow by 5% to 7% in 2018; those to Asia & the Pacific to increase by about 5% to 6% this year; arrivals to the Middle East to expand by between 4% and 6%; and those to Europe and the Americas to grow by about 3.5% to 4.5% each this year.

Source: World Tourism Organization

MENA

Sovereign creditworthiness continues to deteriorate

S&P Global Ratings indicated that overall sovereign creditworthiness in the Middle East & North Africa (MENA) region has deteriorated since July 2017. It noted that it downgraded the sovereign ratings of Bahrain, Jordan and Oman, mainly due to increased external vulnerabilities and rising public debt levels. It also revised the outlook on Egypt's ratings from 'stable' to 'positive', while it affirmed Qatar's ratings and removed them from CreditWatch negative. It pointed out that the MENA region's average sovereign rating continued to decline and is trending closer to 'BBB-'. It said that the average sovereign rating becomes closer to 'BBB' when the ratings are weighted by nominal GDP. Further, S&P pointed out that the average rating differs between the region's hydrocarbon- and non-hydrocarbon-based economies. It noted that the average sovereign rating of the region's hydrocarbon net exporters is currently close to 'BBB+' relative to an average of 'A+' prior to the drop in global oil prices in 2014. It added that the average rating of sovereigns for the net importers of hydrocarbon is close to 'BB+' similar to its pre-2014 level. S&P rates seven MENA sovereigns in the investment grade category, while the remaining six sovereigns are in the speculative grade category. Also, it has a 'stable' outlook on 11 of the MENA sovereigns it rates, while it has a 'positive' outlook on the sovereign ratings of Egypt and a 'negative' outlook on the sovereign ratings of Qatar.

Source: S&P Global Ratings

Country risk level slightly declines in fourth quarter of 2017

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world slightly decreased in the fourth quarter of 2017, as the average score of 19 Arab economies reached 38.64 points in the fourth quarter of last year compared to 38.21 points in the preceding quarter. A higher score reflects a lower country risk level. The region's risk level was higher than the global risk level of 42.77 points in the covered quarter. It was also higher than the risk levels of North America (79.6 points), Western Europe (72.1 points), Central & Eastern Europe (47.7 points), Latin America (45 points) and Asia (43.1 points). In contrast, it was lower than the risk levels of the Caribbean (36.7 points), Sub-Saharan Africa (30.3 points) and Australasia (27.5 points). The GCC countries' average score declined from 60.26 points in the third quarter of 2017 to 59.97 points in the covered quarter, while the average score of non-GCC Arab countries improved from 28.04 points to 28.8 points in the covered quarter. The Arab world's Political Risks score of 11.67 points was lower than the global average of 13.72 points, while its Economic Performance score of 12.79 points was below the global average of 13.42 points. Further, the region's Credit Ratings averaged 2.6 points relative to the global average of 3.05 points; while the Access to Bank Finance & Capital Markets score was 3.66 points, lower than the global average of 3.82 points. Qatar had the lowest country risk level in the Arab world and the 25th lowest globally, followed by Kuwait (33nd), the UAE (34th) and Saudi Arabia (43th).

Source: Euromoney Group, Byblos Research

Equity issuance up 36% to $3.5bn in 2017

Equity Capital Markets' (ECM) issuance in the Middle East, which includes equity and equity-related issuances, totaled $3.5bn in 2017, up by 36% from $2.6bn in 2016. ECM issuance in the real estate sector reached $1.2bn and accounted for 33.6% of ECM activity in the covered period, followed by the energy & power industry with $1.1bn (31.6%), consumer products & services with $503m (14.3%) and the financial sector with $358m (10.2%). Also, there were 12 initial public offerings in 2017 that raised $2.8bn and accounted for 80% of ECM activity. In parallel, debt issuance in the region reached $104.1bn in 2017, up by 34% from $77.8bn in 2016, the highest level on record. Also, Sukuk issuance grew by 36% year-on-year to $51.5bn. Further, the value of announced mergers and acquisitions (M&A) in the Middle East, which includes inbound, outbound and inter-regional deals, totaled $43.8bn in 2017, down by 14% from $51.2bn in 2016. In parallel, investment banking fees in the region stood at $919.4m last year, nearly unchanged from 2016. Syndicated lending fees totaled $390m and accounted for 42% of the overall fee pool, followed by debt capital market fees at $256.3m (28%), fees from M&A deals at $181.9m (20%), and fees from equity capital markets at $91.3m (10%).

Source: Thomson Reuters

OUTLOOK

AFRICA

Outlook subject to significant downside risks

The World Bank projected economic growth in Sub-Saharan Africa (SSA) to accelerate from 2.4% in 2017 to 3.2% in 2018 and to average 3.6% annually during the 2019-20 period, supported by an increase in commodity prices and stronger domestic demand. Still, it expected the region's growth rate to remain below the pre-global financial crisis level, as Angola, Nigeria and South Africa, the region's largest economies, continue to face challenges. It forecast Nigeria's real GDP to pick up from 1% in 2017 to 2.5% in 2018, driven by higher oil production and improved non-hydrocarbon sector activity. It projected Angola's real GDP to rise from 1.2% last year to 1.6% this year in case the successful political transition improves the investment climate.

Further, the Bank expected economic activity in SSA's oil exporters to accelerate from 1.5% in 2017 to 2.8% this year and to average 2.9% annually in the 2019-20 period, due to higher oil exports. It anticipated activity in SSA's metal exporters to accelerate in 2018, supported by rising metals prices, declining inflation rates, easing in monetary policy and increased household demand. Also, it expected power generation in some of the region's metal exporters to increase in case weather conditions improve, which would support private sector activity. Further, it projected growth in non-resource-intensive countries to expand at a solid pace, driven by strong public investment growth. In addition, it anticipated economic activity to remain solid in the economies of the West African Economic & Monetary Union, with Côte d'Ivoire and Senegal expanding at a fast pace. Also, it projected Ethiopia to remain the fastest-growing economy among East African countries, as it implements measures to stabilize its government debt level. It expected Kenya's real GDP to recover due to a lower inflation rate, while it projected Tanzania's growth to accelerate on strengthened investment growth.

In parallel, the Bank indicated that the regional outlook is subject to significant downside risks, which include tighter global financing conditions, slower-than-anticipated increase in commodity prices, heightened policy uncertainty in the U.S., weaker-than-expected growth in China, as well as an intensification of regional political and policy uncertainty and security tensions.
Source: World Bank

ANGOLA

Currency devaluation to support fiscal adjustment

Standard Chartered Bank considered that Angola's recent decision to shift from a pegged exchange rate regime to a managed float foreign exchange system would support the country's fiscal adjustment. It anticipated the currency depreciation to help narrow the fiscal deficit, as the value of revenues in foreign currency would increase when converted to kwanza. It noted that authorities have targeted a fiscal deficit of 2.9% of GDP in 2018, with a 41% increase in oil revenues in local currency. It estimated that the projected oil receipts in the 2018 budget are consistent with a 20% to 25% currency depreciation. As such, it estimated the currency to depreciate to between AOA210 to AOA225 against the US dollar compared to AOA166 per dollar under the pegged exchange rate. Further, it noted that the currency depreciation would increase the debt level that reached about 67% of GDP at end-2017, mainly because of the large share of foreign currency-denominated debt. It said that other factors may affect the debt path, such as additional borrowing and higher yields. It added that Angola's very high financing needs, estimated at 22% of GDP in 2018, constitute another challenge for the country.

In parallel, Fitch Ratings considered that the Angolan authorities' recent measures, including the shift to a more flexible exchange rate regime, aim to improve the fiscal and external imbalances that resulted from the drop in global oil prices, and reflect a more effective economic policy adjustment. However, it said that the lack of clarity on how authorities would follow up on the exchange rate adjustment and on the implementation of new policies could limit the effectiveness of the new measures. It noted that the depreciation of the kwanza could increase inflationary pressures in the short term. It noted that reducing the inflation rate to the target range of between 7% and 9% is contingent on the credibility of the new exchange rate mechanism. Further, Fitch estimated that the currency has to further depreciate in order to meet the economy's needs for foreign currency, eliminate the parallel foreign currency market and control inflation.
Source: Standard Chartered Bank, Fitch Ratings

IRAQ

Economic activity to grow by 4% in 2018

The Institute of International Finance projected Iraq's real GDP growth to accelerate from 0.2% in 2017 to 4% in 2018, supported by improvements in hydrocarbon and non-hydrocarbon sector activities. It projected hydrocarbon output to grow by 3% in 2018 following a contraction of 2.1% in 2017, as increased investment in the sector raises extraction potential and efficiency. It expected growth in the non-hydrocarbon sector to increase from 5% in 2017 to 6% this year, mainly due to more favorable geopolitical conditions and to a recovery in consumer and business sentiment. It noted that Iraq's performance is mixed under the $5.4bn three-year Stand-By Arrangement with the IMF. It added that authorities are trying to increase non-oil revenues and cut non-social spending amid a challenging operating environment. The IIF indicated that the main risks to the outlook include the intensification of the sectarian conflict, lower-than-anticipated oil prices, heightened geopolitical uncertainties and a faster-than-expected tightening of the U.S. monetary policy.

Further, the IIF indicated that Iraq's fiscal situation has started to improve, mainly due to the recent increase in global oil prices. It anticipated the fiscal deficit to narrow from 4.1% of GDP in 2017 to 1.2% of GDP in 2018, supported by higher oil export receipts. But it cautioned that the ongoing dispute between the central government and the Kurdish Regional Government over the level of transfers to Erbil could impede the implementation of the 2018 budget. Also, it projected the public debt level to regress from 61.7% of GDP at end-2017 to 57.1% of GDP at end-2018. It noted that the debt would remain above its pre-2014 levels, which makes the economy more vulnerable to future negative shocks. In parallel, it expected the current account surplus to increase from 2.3% of GDP in 2017 to 3.8% of GDP this year, while it anticipated foreign currency reserves to increase from $43.8bn at the end of 2017 to $51.3bn at end-2018.
Source: Institute of International Finance

GCC

Negative outlook for sovereigns in 2018

Moody's Investors Service indicated that the outlook on the sovereign ratings of Gulf Cooperation Council (GCC) countries is 'negative' in 2018, due to subdued economic growth, structural challenges and geopolitical tensions. It anticipated most GCC countries to post sizable fiscal deficits and a rise in their public debt levels over the next 12 to 18 months, despite the partial recovery in global oil prices. It forecast the GCC's real GDP to accelerate from no growth in 2017 to about 2% in 2018. But it noted that it will remain well below the annual average growth rate of 5% over the past five years because of flat oil and gas production, and a slow recovery in non-hydrocarbon activity. It projected the GCC's fiscal deficit to reach 5% of GDP in 2018 and 2019, which would lead to a rise in the public debt levels across GCC countries. It expected Bahrain's government debt to reach 100% of GDP by 2019, while it forecast government debt in Kuwait and Saudi Arabia to also grow but from a low base. It anticipated government debt in Qatar and the UAE to stabilize in 2018 and 2019. It cautioned that efforts towards fiscal consolidation in GCC countries would slow down in case oil prices stabilize at their current levels. In parallel, Moody's expected the rift between Qatar and other GCC countries to persist in 2018 and could continue beyond this year, while tensions between Saudi Arabia and Iran could escalate. Overall, it pointed out that the increase in geopolitical tensions is credit negative for the region, as it would have an adverse impact on investors' confidence, economic growth and external financing costs.

Source: Moody's Investors Service

UAE

Abu Dhabi ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'AA/A-1+' Abu Dhabi's long- and short-term foreign and local currency sovereign credit ratings, with a 'stable' outlook on the long-term ratings. It noted that Abu Dhabi's ratings are supported by its strong fiscal and external positions, but are constrained by its limited monetary policy flexibility, underdeveloped local-currency domestic bond market and limited data availability. It expected Abu Dhabi to maintain a very strong net fiscal asset position of above 200% of GDP during the 2018-21 period, one of the highest ratios among rated sovereigns. It added that the Emirate's asset position provides a buffer to mitigate the negative impact of low oil prices on economic growth, government revenues and the external account, as well as increased geopolitical uncertainties in the region. Further, it projected Abu Dhabi's real GDP growth to recover from 0.3% in 2017 to an average of 2.6% annually during the 2018-21 period, supported by higher oil prices and production, and increased investment spending. In parallel, S&P expected Abu Dhabi's general government fiscal surplus to increase from 1.7% of GDP in 2017 to 6.3% of GDP annually in the 2018-21 period, driven by stable public spending and higher revenues. It said that the Emirate issued $10bn in Eurobonds in 2017, which caused the government debt level to increase from 3.9% of GDP at the end of 2016 to 8.2% of GDP at end-2017. It added that authorities plan to issue for the first time AED20bn in domestic bonds and Treasury bills in 2018, in order to finance the government's needs.

Source: S&P Global Ratings

EGYPT

Outlook revised to 'positive' on progress in reforms

Fitch Ratings affirmed Egypt's foreign and local currency Issuer Default Ratings at 'B', and revised the outlook from 'stable' to 'positive'. It attributed the outlook revision to the authorities' significant progress in the implementation of reforms in 2017 and their compliance with the IMF program. It said that fiscal consolidation is on track, but it noted that public finances remain a key constraint to Egypt's credit profile and that a multi-year effort is required to reverse the rise in the public debt levels since 2011. It forecast the primary balance to post a surplus in the fiscal year that ends in June 2019, constituting the first surplus in more than 15 years, supported by the rise in electricity tariffs and the increase in the value-added tax rate. In this context, it projected the public debt level to regress from 103% of GDP in FY2016/17 to 93% of GDP in FY2017/18 and 88% of GDP in FY2018/19. It cautioned that a potential slowdown in reforms poses a risk to public finances. Further, Fitch pointed out that the liberalization of the exchange rate helped narrow the current account deficit and increase foreign currency reserves in FY2016/17, as it encouraged foreign inflows. It noted that foreign currency reserves increased from $19.1bn in October 2016 to $37bn in November 2017, equivalent to about six months of current external payments. In parallel, it said that the high inflation rate remains a key rating weakness, even though it projected it to average about 13% to 14% in 2018, down from 22% at the end of 2017. It forecast real GDP growth to accelerate from 4.2% in FY2016/17 to 4.8% in FY2017/18, partly due to higher gas production.

Source: Fitch Ratings

TUNISIA

Economy continues to face significant challenges

The Institute of International Finance indicated that Tunisia's economic conditions have deteriorated since 2011, with subdued economic activity, persistently high unemployment rates, especially among the youth, and worsening external and fiscal imbalances. It estimated real GDP growth at 2% in 2017, supported by a modest recovery in tourism activity and a strong rebound in phosphate production, and expected it to remain subdued at 2.3% in 2018. It pointed out that the inflation rate accelerated from 4.2% at the end of 2016 to 6.3% at end-2017, partly driven by the depreciation of the dinar, which prompted the Central Bank of Tunisia to increase its policy rates. It projected the inflation rate to slightly regress to 5.2% at the end of 2018. In parallel, the IIF indicated that the fiscal deficit widened from 5.4% of GDP in 2016 to 6% of GDP in 2017, mainly due to higher spending on wages, pensions, transfers and subsidies. It projected the deficit to narrow to 5.5% of GDP in 2018 in case authorities implement the fiscal measures included in the 2018 budget, such as increasing the value-added tax rate on several goods & services and cutting fuel subsidies. It added that fiscal consolidation measures, along with deteriorating economic conditions and the rising cost of living, have triggered protests that called for revising the fiscal measures. Further, it forecast the public debt level to reach 71% of GDP by the end of 2018. In parallel, the IIF projected the current account deficit to remain at 10% of GDP this year, while it forecast foreign currency reserves at $5.4bn, or 2.5 months of import cover at end-2018.

Source: Institute of International Finance

MOROCCO

Bank Al-Maghrib to widen currency band

JPMorgan Chase anticipated that Bank Al-Maghrib's (BAM) decision to widen the Moroccan dirham's floating bands from +/- 0.3% to +/- 2.5% is part of a gradual shift towards a more flexible exchange rate regime. It expected BAM to continue to intervene in the foreign currency market through currency auctions, swaps and other mechanisms to keep the dirham's fluctuation within the band limits. It noted that the BAM announced in mid-2017 that it plans to move to a more flexible exchange rate regime, but it did not proceed with the plan at the time because the announcement created uncertainty and led to a fast decrease in foreign currency reserves due to fears of a devaluation. It did not expect the market to react to the current exchange rate adjustment in the same way as it did in mid-2017. First, it considered that BAM had not pre-announced the timing for the latest currency measures in order to limit pre-emptive demand for foreign currency. Second, it said that authorities have been proactively managing expectations towards the gradual move to exchange rate stability, and that fears of a large currency devaluation have diminished. Further, JPMorgan Chase expected BAM to maintain the current basket arrangement at +/- 2.5% against the central rate at least during the first half of 2018, before implementing additional changes to the exchange rate system. It noted that BAM could further widen the band and eventually adopt a managed-float exchange rate regime. In parallel, JPMorgan Chase anticipated the modest widening of the bands to have a limited impact on economic activity.

Source: JPMorgan Chase

JORDAN

Agency affirms ratings of six banks

Capital Intelligence Ratings (CI) affirmed at 'BB-' the long-term foreign currency rating (FCR) of Arab Bank, Jordan Ahli Bank (JAB), Jordan Islamic Bank (JIB), Housing Bank for Trade & Finance (HBTF), Cairo Amman Bank (CAB) and Arab Banking Corporation Jordan (Bank ABC), with a 'negative' outlook on the ratings. It said that the six banks' long-term FCRs are constrained by the sovereign rating, due to the banks' exposure to the sovereign and because of their exposure to the Jordanian market. Also, it noted that heightened sovereign risk factors, as well as a challenging domestic operating environment, continue to weigh on the banks' long-term FCRs. In parallel, the agency affirmed the Financial Strength Rating (FSR) of Arab Bank and of HBTF at 'BBB+', that of Bank ABC at 'BBB', the FSR of CAB and of JIB at 'BBB-', and that of JAB at 'BB', with a 'negative' outlook on the banks' FSRs. It noted that Arab Bank's FSR is supported by its sound operating profitability, but is constrained by a relatively high level of non-performing loans and a moderately low capital adequacy ratio. Also, it pointed out that HBTF's FSR reflects its strong capital adequacy ratio, very sound liquidity metrics and solid net interest margin. Further, it indicated that JIB's FCR is underpinned by high liquidity levels, a diversified customer deposit base and good profitability. CI indicated that all the banks' FSRs are constrained by a difficult operating environment amid high geopolitical risks in the MENA region.

Source: Capital Intelligence Ratings

ANGOLA

Currency devaluation to have limited impact on banks' capitalization

Fitch Ratings did not expect the devaluation of the Angolan kwanza to result in a significant and immediate deterioration of the capital adequacy ratios (CARs) of domestic banks. It considered that foreign currency revaluation gains from the banks' long open foreign currency positions would outweigh the negative impact on their CARs. It noted that data published by the Banco Nacional de Angola show that the banking sector's net open foreign currency position stood at 39% at the end of November 2017, significantly above the 20% prudential limit that was enforced in 2016 but that was revoked in 2017. Also, it pointed out that the currency devaluation would inflate foreign currency assets when they are converted to kwanza, which would increase the value of risk-weighted assets. It noted that the risk weights on the banks' holdings of government securities and on their exposure to other public sector risks are zero percent. As such, it indicated that the increase in risk-weighted assets will be more pronounced in private-sector loan books, which accounted for less than 40% of the sector's assets at end-November 2017. However, the agency said that the impact of the currency devaluation on individual banks will vary. It noted that banks with short foreign currency positions will post a decline in equity revaluation reserves and might struggle to comply with CAR requirements. It expected equity revaluation reserves to increase at banks with long open foreign currency positions. But it noted that such an increase could be partly offset by the adverse impact of the currency depreciation on the borrowers' ability to repay foreign currency loans.

Source: Fitch Ratings

SAUDI ARABIA

Banks to benefit from government stimulus

Moody's Investors Service considered that Saudi Arabia's SAR72bn, or $19.2bn, four-year stimulus package to support private-sector growth is credit-positive for the domestic banking sector. It estimated that SAR21bn will be allocated to housing, SAR10bn to new economic projects, SAR2.8bn to small companies and SAR1.5bn to distressed firms. Overall, it expected SAR24bn to be spent in 2018, which would support the banks' lending growth and, in turn, increase their profitability metrics. Further, the agency anticipated real estate lending and credit to small- and medium-sized enterprises (SMEs), which account for about 15% and 5%, respectively, of total bank lending, to benefit from the stimulus package and to be key growth areas for banks. As such, it forecast lending growth to accelerate to 4% at the end of 2018 from 1.8% year-on-year at the end of October 2017. In parallel, Moody's pointed out that banks consider lending to SMEs as highly risky, and that an expansion in SME lending is contingent on better financial reporting practices. It considered that the implementation of the value-added tax and the development of a risk information database would increase SMEs transparency, while the anticipated introduction of a new bankruptcy law would encourage banks to lend to higher-risk real estate and SME segments.

Source: Moody's Investors Service

Oil prices to improve in 2018 on higher OPEC compliance and stronger oil demand

ICE Brent crude oil front-month prices have traded at between $66.6 per barrel (p/b) and $70.3 p/b so far in January 2018, compared to a range of between $53.6 p/b and $57.1 p/b in the same period of 2017 and a high of $67 p/b in full year 2017. The increase in oil prices so far this year was mainly driven by OPEC and non-OPEC members' sustained compliance with oil production cuts, higher demand for winter heating in the United States, improved investor sentiment, a decline in U.S. oil inventories, as well as a weaker US dollar. Also, heightened political risks in Iran, Iraq, Nigeria and Venezuela are supporting the upward trend in oil prices, given that these countries are major suppliers of oil and any disruption in their output could have a significant impact on the global oil market. In parallel, Merrill Lynch expected stronger global oil demand and OPEC-led production cuts to reduce the world's crude oil inventories and to contribute to a faster-than-anticipated rebalancing in the oil market. As such, it expected the oil market to be undersupplied by about 430,000 barrels per day (b/d) in 2018, compared to its earlier forecast of a deficit of 100,000 b/d. It also revised upward its projections for Brent oil prices to an average of $64 p/b in 2018 from $56 p/b previously, while it anticipated WTI oil prices to average $60 p/b this year, up from an earlier estimate of $52 p/b.

Source: Merrill Lynch, Thomson Reuters, Byblos Research

Power production capacity in the Middle East to reach 483 GW in 2035

Power demand in the Middle East region is estimated to grow by 3.3% annually over the 2018-35 period, as some countries in the region are expected to post annual population growth rates of around 3.5% over the covered period. As a result, power plants in the Middle East would have to boost their installed capacity to 483 gigawatts (GW) by 2035, up 2.3 times from 206 GW in 2016. Natural gas would account for 290 GW, or 60% of total energy supply in 2035, followed by oil with 86 GW (17.8%), solar energy with 63 GW (13%), hydropower energy with 16 GW (3.3%) and wind with 11 GW (2.3%).

Source: Siemens, IHS Markit

OPEC's oil basket price up 2% in December 2017

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged $62.1 per barrel (p/b) in December 2017, constituting an increase of 2.2% from $60.7 p/b in the preceding month. Angola's Girassol crude oil was at $65 p/b, followed by Algeria's Saharan blend at $64.7 p/b and Nigeria's Bonny Light at $64.6 p/b. All 14 prices included in the OPEC reference basket posted monthly increases that ranged from $0.2 p/b to $2 p/b in December 2017.

Source: OPEC, Byblos Research

ME&A's oil demand to rise by 2% in 2018

Crude oil consumption in the Middle East & Africa region is forecast to average 12.49 million b/d in 2018, which would constitute a rise of 1.8% from 12.27 million b/d in 2017. The region's demand for oil would represent 38.3% of demand in developing countries and 12.7% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.14 million b/d in 2018, up by 1.6% from 3.09 million b/d in 2017.

Source: OPEC, Byblos Research

Base Metals: Zinc prices contingent on pick-up in mine production

LME zinc 3-month future prices averaged $2,888 per ton in 2017, up by 37.5% from $2,100 a ton in 2016. Prices reached their highest level in 10 years to close at $3,319 on December 29, 2017 due to increased global demand for the metal, which is primarily used to galvanize steel. Also, the rally in zinc prices is driven by concerns over tight global mine supply conditions and limited inventories, as well as a surge in speculative buying of contracts on the metal. Zinc prices are forecast to average $3,300 a ton in the first quarter and to rise to $3,400 a ton in the second quarter of 2018, due to sustained production deficits in China, the world's largest producer of zinc. Further, zinc prices are projected to average $3,225 a ton in 2018, mainly driven by China's production deficit of the refined metal, which is anticipated at 546,000 tons in 2018. The deficit in the global refined market is projected at 276,000 tons in 2018 compared to a deficit of 504,000 tons last year, while the deficit in the global concentrate market is anticipated at 361,000 this year relative to a deficit of 423,000 tons in 2017. Downside risks to the metal's price outlook include lower Chinese demand for the metal. Also, supply-side conditions are expected to ease by mid-2018 with new production coming online in Peru and Mexico, among other countries, as well as the pick-up of suspended activity in the Lady Loretta mine in Australia, which could cap prices.

Source: Standard Chartered Bank, Thomson Reuters

Precious Metals: Gold prices to be supported by strong economic growth prospects

Gold prices are forecast to average $1,324 a troy ounce in 2018, which would constitute an increase of 5.2% from an average of $1,258.5 an ounce in 2017. Prices are projected to trade at a low of $1,200 an ounce and a high of $1,450 an ounce this year. The anticipated rise in the metal's price in 2018 is supported by expectations of a weaker US dollar and higher inflation in the U.S., as well as by higher investor demand for the metal. Also, the price outlook takes into account strong economic growth prospects in 2018, especially in China, Europe and the U.S., which would support demand for gold jewelry and gold-containing technology such as smartphones and tablets. In addition, strong economic growth spurs savings and, in turn, leads to an increase in bar and coin demand for gold. Further, gold-backed investment vehicles, as well as increased gold market transparency and efficiency, are making access to gold easier and more affordable. However, downside risks to the price outlook include weaker-than-anticipated physical demand for the metal in 2018, two U.S. interest rate hikes and a slowdown in U.S. retail demand.

Source: Standard Chartered, World Gold Council, 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+								
	-	-	-	-	Negative	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B-	B2	B	-	B+								
	Stable	Stable	Negative	-	Negative	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B-	B3	B	B	B-								
	Stable	Stable	Positive	Stable	Stable	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
Ghana	B-	B3	B	-	B+								
	Positive	Stable	Stable	-	Negative	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
Libya	-	-	B	-	B-								
	-	-	Stable	-	Negative	-16.4	78.2	-	-	-	-	-10.6	-
Dem Rep	CCC+	B3	-	-	CCC								
Congo	Stable	Negative	-	-	Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B	B2	B+	-	B+								
	Stable	Stable	Negative	-	Negative	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-2.5	55.2	47.5	-	-	-	-4.7	-
Tunisia	-	B1	B+	-	BB+								
	-	Negative	Stable	-	Stable	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
Burkina Faso	B-	-	-	-	B+								
	Stable	-	-	-	Stable	-3.6*	33.3	23.1**	-	-	-	-7.2	-
Rwanda	B	B2	B	-	B+								
	Stable	Stable	Positive	-	Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
Middle East													
Bahrain	B+	B1	BB+	BB+	BB+								
	Stable	Negative	Negative	Negative	Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
Iran	-	-	-	BB-	BB-								
	-	-	-	Stable	Positive	0.7	29.2	2.0	-	-	-	5.3	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-4.2	60.0	38.8	-	-	-	-4.4	-
Jordan	B+	B1	-	BB-	BB+								
	Stable	Stable	-	Negative	Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Negative	Stable	Stable	Stable	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
Lebanon	B-	B3	B-	B	B-								
	Stable	Stable	Stable	Negative	Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
Oman	BB	Baa2	BBB-	BBB+	BBB								
	Stable	Negative	Negative	Stable	Negative	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
Qatar	AA-	Aa2	AA-	AA-	AA-								
	Negative	Negative	Negative	Negative	Stable	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
Syria	-	-	-	-	C								
	-	-	-	-	Negative	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Negative	-	Stable	Stable	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
Yemen	-	-	-	-	CCC								
	-	-	-	-	Negative	-6.0	77.4	20.3	-	-	-	-4.2	-

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 Stable	B+ Stable	- -	B- Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	AA- Stable	Aa3 Negative	A+ Stable	- -	A Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB- Stable	Baa3 Positive	BBB- Stable	- -	BBB Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB- Negative	Baa2 Negative	BBB+ Stable	- -	BBB- Negative	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB Negative	Baa2 Stable	BBB- Stable	- -	BBB Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB- Stable	Baa3 Stable	BBB- Stable	- -	BBB- Positive	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BB+ Negative	Ba1 CWN***	BBB- Negative	- -	BB+ Negative	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB Negative	Ba1 Negative	BB+ Stable	BB+ Stable	BB- Negative	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	CCC Negative	Caa3 Stable	CCC -	- -	B- 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	08-Feb-18
Japan	O/N Call Rate	-0.10	21-Dec-17	No change	23-Jan-18
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	1.25	17-Jan-18	Raised 25bps	07-Mar-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	31-Jan-18
Taiwan	Discount Rate	1.375	21-Dec-17	No change	22-Mar-18
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	20-Dec-17	No change	14-Feb-18
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	28-Dec-17	No change	15-Feb-18
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	29-Jan-18
Mexico	Target Rate	7.25	14-Dec-17	Raised 25bps	08-Feb-18
Brazil	Selic Rate	7.00	06-Dec-17	Cut 50bps	07-Feb-18
Armenia	Refi Rate	6.00	26-Dec-17	No change	14-Feb-18
Romania	Policy Rate	2.00	08-Jan-18	Raised 25bps	07-Feb-18
Bulgaria	Base Interest	0.00	02-Jan-18	No change	01-Feb-18
Kazakhstan	Repo Rate	9.75	15-Jan-18	Cut 50bps	20-Feb-18
Ukraine	Discount Rate	14.50	14-Dec-17	Raised 100bps	25-Jan-18
Russia	Refi Rate	7.75	15-Dec-17	Cut 50bps	09-Feb-18

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