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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Venture capital deals up 28% to $182bn in 2017

Research provider Preqin indicated that the aggregate value of venture capital (VC) investments worldwide reached a record-high of $182.4bn in 2017, constituting an increase of 27.6% from $143bn in 2016. It noted that VC deals in North America totaled $77bn and represented 42.2% of global VC investments, followed by China with $64.8bn (35.5%), Europe with $17.7bn (9.7%) and India $10.4bn (5.7%). It pointed out that the value of VC investments in the Internet industry reached $43.6bn in 2017, or 24% of the total, followed by the telecommunication sector with $41.8bn (23%), the software industry with $26.9bn (14.8%) and the healthcare sector with $25.9bn (14.2%). In parallel, it pointed out that 11,144 VC deals took place last year, which constitutes a decline of 6.7% from 11,944 transactions in 2016. It said that 4,302 VC deals, or 38.6% of the total, took place in North America in 2017, followed by China with 2,633 deals (23.6%), Europe with 2,139 transactions (19.2%) and India with 801 deals (7%). Further, it indicated that there were 2,876 VC deals in the software industry, which is equivalent to 25.8% of the total. The Internet sector followed with 2,479 transactions (22.3%), then the telecommunication industry with 1,496 deals (13.4%) and the healthcare sector with 1,313 investments (11.8%). Preqin added that the Angel or Seed stage of financing accounted for 32% of the total number of deals globally in 2017.

Source: Preqin

MENA

Artificial Intelligence to contribute $320bn to region's economies by 2030

PwC indicated that artificial intelligence (AI), which is defined as intelligence demonstrated by machines, would contribute $320bn to economies in the Middle East by 2030, which is equivalent to 11% of the region's 2030 GDP and which represents 2% of AI's contribution to the global economy. It expected AI to contribute $135.2bn to the Saudi economy, or 12.4% of the Kingdom's GDP by 2030, followed by the UAE with $96bn (13.6% of GDP) and Egypt with $42.7bn (7.7% of GDP). It added that AI would contribute a total of $45.9bn to the economies of Bahrain, Kuwait, Oman and Qatar by 2030, which is equivalent to 8.2% of the four countries' aggregate GDP. Further, it anticipated AI to contribute around $100bn to the region's construction and manufacturing sectors, equivalent to 31.3% of total AI contribution to the region. In parallel, PwC expected that the growth in AI's contribution between 2018 and 2030 to vary between 20% and 34% across Middle Eastern countries, with the UAE posting the highest growth. It noted that the UAE, Saudi Arabia and Qatar have demonstrated their strong commitment towards the development and implementation of AI technologies, as businesses in these countries, with the support of authorities, continue to invest heavily in technology. In contrast, it pointed out that the adoption of AI by non-GCC economies has been slower due to their weaker infrastructure and reduced access to skilled labor, two important factors for the development of AI.

Source: PwC

Most Arab countries in "Nascent" stage of readiness for the future of production

The World Economic Forum (WEF) placed Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Tunisia and Saudi Arabia among "Nascent" countries on its Readiness for the Future of Production Assessment for 2018. The WEF also noted that Qatar and the UAE are in the "High Potential" category, while Turkey is in the "Legacy" category. The assessment measures a country's ability to capitalize on future production opportunities, to mitigate risks and challenges, as well as its resilience in addressing potential shocks. The WEF considered that a "Nascent" country has a limited production base with a low level of readiness for the future of production. In comparison, it said that a country in the "Legacy" category has a strong production base but is at risk for the future due to weaker performance across the drivers of production, while a "High Potential" country has a limited production base along with an existing capacity to increase production in the future. The assessment is based on two indicators that are the Structure of Production and the Drivers of Production. The WEF scores each country on a scale from zero to 10 on each indicator, with 10 representing the best performance. The MENA region posted a score of 4.32 on the Structure of Production indicator, which assesses the complexity and scale of a country's production base. Also, the region posted a score of 4.95 on the Drivers of Production indicator, which measures the ability of a country to capitalize on emerging technologies and opportunities.

Source: World Economic Forum

Logistics infrastructure varies in Arab region

Transport International's 2018 Agility Emerging Markets Logistics Index indicated that the UAE has the third most attractive market for the logistics industry among 50 emerging economies and ranks in first place among 13 Arab countries. Saudi Arabia followed in sixth place, then Qatar (11th) and Oman (13th). In contrast, Tunisia (42nd), Libya (44th) and Lebanon (45th) have the least favorable market conditions for the logistics industry in the Arab region. The index ranks emerging markets (EM) based on the size of their economy, business conditions, infrastructure and other factors that make them attractive to logistics companies, air cargo carriers, shipping lines, freight forwarders and distribution firms. The index is a weighted average of three sub-indices that are Market Size & Growth Attractiveness, Market Compatibility, and Market Connectedness. The Arab region's average score stood at 5.1 points, slightly higher than 5.06 points in the 2017 survey, and above the EMs' average of 5 points. Also, GCC and non-GCC Arab countries had average scores of 5.86 points and 4.45 points, respectively. The ranking of eight Arab countries improved, those of three countries were unchanged from the previous survey, while those of two countries regressed. Egypt (13th), Saudi Arabia (15th) and the UAE (19th) were the top ranked Arab countries on the Market Size & Growth Attractiveness. Further, the UAE (1st), Qatar (2nd) and Oman (3rd) led emerging markets on the Market Compatibility Sub-Index; while the UAE (1st), Bahrain (5th) and Oman (6th) were the top ranked Arab countries on the Market Connectedness Sub-Index.

Source: Transport International, Byblos Research

OUTLOOK

MENA

Revenue and expenditure reforms to help meet fiscal and economic goals

The International Monetary Fund considered that Arab countries would be able to achieve their fiscal, economic and social objectives if they implement revenues- and expenditures-related reforms. It indicated that many Arab countries have introduced revenue-generating measures, such as imposing the value-added tax in Saudi Arabia and the UAE, which allows them to diversify their public receipts and broaden the tax base. It encouraged Arab countries to continue to increase domestic revenues, which it estimated at only 10% of their aggregate GDP. On the expenditures side, the IMF noted that many Arab countries have taken steps to contain spending, which it estimated at about 55% of GDP in some countries. It considered that public investment in sectors that support sustainable and inclusive growth, such as healthcare, education and social protection, is low and inefficient. In contrast, it said that spending on energy subsidies lacks transparency and is high, at an average of 4.5% of GDP among oil-exporting economies and of 3% of GDP among oil-importing countries, despite lower global oil prices. It added that increasing employment in the public sector could weigh on fiscal sustainability, on governance and on the development of the private sector.

In parallel, the Fund welcomed the Arab countries' efforts to reduce energy subsidies. It noted that oil-exporting economies raised their domestic energy prices, while Egypt has committed to implement further energy subsidy reforms under the IMF program, and Tunisia increased its fiscal savings by 1% of GDP by reforming its energy subsidy system. Further, the IMF called on Saudi Arabia and Egypt to improve spending efficiency in the healthcare sector, while it said that Oman, Mauritania and Egypt are constrained by large efficiency gaps in the education industry. It estimated that the public investment efficiency gap, which measures the total value lost due to inefficiencies in the investment process, exceeds 20% in some countries. It considered that better public investment management practices would reduce the efficiency gap by about two-thirds, and added that a reduction in public investment inefficiencies in GCC countries could save about 2% of GDP each year.

Source: International Monetary Fund

SAUDI ARABIA

Non-oil growth to pick up in 2018 on higher public expenditures

Jadwa Investment projected Saudi Arabia's real GDP growth at 1.5% in 2018 following a contraction of 0.7% in 2017, due to improved hydrocarbon and non-hydrocarbon sector activity. It forecast hydrocarbon output to grow by 1.5% in 2018 relative to a contraction of 3% in 2017, supported by a modest increase in oil production and the start of the export-oriented Jizan refinery. Also, it projected non-oil growth at 1.5% in 2017 following a contraction of 0.7% last year, driven by increased capital spending and the government's private sector stimulus package. Further, it expected the inflation rate to average 5.2% in 2018 relative to -0.3% in 2017, mainly due to the introduction of the value-added tax and increases in utility prices. But it anticipated the disbursement of payments under the Citizen's Account program to ease the impact of tax measures on household income in coming years. It considered that downside risks to the outlook include lower-than-expected oil prices, further increases in U.S. interest rates and heightened regional tensions.

In parallel, Jadwa considered that the rise in global oil prices in 2018 would ease the pressure on the Kingdom's fiscal and external balances. It forecast the fiscal deficit to narrow from 9% of GDP in 2017 to 7.9% of GDP in 2018. It expected authorities to finance the 2018 deficit through foreign and local debt issuance and from drawing down the stock of foreign assets at the Saudi Arabian Monetary Agency (SAMA). As such, it expected the public debt level to grow from SAR443bn or 17.3% of GDP at end-2017, to SAR560bn or 19.9% of GDP at end-2018. Further, it projected the current account surplus to increase from 1.2% of GDP in 2017 to 3.8% of GDP in 2018, as it anticipated oil export receipts to rise from $159bn last year to $180bn in 2018. In addition, it forecast the pace of withdrawals from SAMA's foreign reserves to slow down this year, and forecast the reserves to decline from $496bn at end-2017 to $474bn at end-2018.

Source: Jadwa Investment

PAKISTAN

Macroeconomic risks on the rise

The Institute of International Finance projected Pakistan's real GDP growth at 5.2% in the fiscal year that ends in June 2018, nearly unchanged from the previous fiscal year. It noted that investment under the China-Pakistan Economic Corridor, mainly in energy and transportation sectors, is anticipated to support economic activity this year. Further, it forecast the inflation rate to average 4.3% in FY2017/18, nearly unchanged from the previous year, despite the recent modest depreciation of the Pakistani rupee and higher global commodity prices. It said that the State Bank of Pakistan increased its policy rate by 25 basis points to 6% in January 2018, and that further monetary tightening is contingent on the authorities' willingness to let the rupee depreciate.

The IIF indicated that the macroeconomic stability that Pakistan achieved under the 2013-16 IMF program has started to erode amid a slowdown in reform implementation and an increase in oil prices. It added that the external position has weakened due to higher imports and stagnating exports, with the current account deficit widening from 1.7% of GDP in FY2015/16 to an expected 5.3% of GDP in FY2017/18. It noted that authorities would resort to additional foreign borrowing and debt issuance in order to keep foreign reserves at $15bn in the coming two years relative to $19.4bn, or 4.2 months of imports at the end of June 2016. Further, the IIF expected the fiscal deficit to narrow from 5.8% of GDP in FY2016/17 to 5% of GDP in FY2017/18 in case revenues increase from improved tax collection and strong economic growth. But it noted that the narrowing of the deficit will be insufficient to significantly reduce the public debt level, which it projects to remain at about 67% of GDP in FY2017/18.

In parallel, the IIF pointed out that downside risks to the outlook include higher oil prices, a surge in imports and failure to increase exports, which would further weigh on the external sector. It added that the upcoming general elections could cause higher spending, while a deterioration in security and political conditions could weigh on the outlook and on investor sentiment.

Source: Institute of International Finance

ECONOMY & TRADE

QATAR

Ratings affirmed with a 'negative' outlook

S&P Global Ratings affirmed at 'AA-' Qatar's long- and short-term foreign and local currency ratings, with a 'negative' outlook on the long-term ratings. It indicated that the ratings reflect its expectations that Qatar will continue to actively manage the negative impact of its political rift with several Arab states while preserving its rating strengths that consist of the country's resilient public finances, sufficient wealth levels, substantial natural gas reserves and very high level of government assets. It projected real GDP growth to pick up from 2.5% in 2017 to an average of 2.8% annually during the 2018-21 period, supported by the government's infrastructure program and other hydrocarbon-related investments. Further, S&P expected Qatar's current account surplus to increase from 3.1% of GDP in 2017 to 3.7% of GDP annually during the 2018-21 period, while it projected the fiscal deficit to narrow from 4% of GDP in 2017 to an average of 3% of GDP during the 2018-21 period, mainly due to higher hydrocarbon receipts. It indicated that the government plans to continue to finance the deficit through debt issuance instead of drawing down its foreign assets. As such, it projected the public debt level at 48% of GDP at the end of 2018, nearly unchanged from a year earlier. Further, it said that a prolongation or any escalation of the political rift could accelerate the outflow of non-resident deposits from Qatari banks, which would require further material support from the government. Further, it anticipated Qatar's liquid assets to average 140% of GDP and for its net asset position to average about 93% of GDP during the 2018-21 period.

Source: S&P Global Ratings

ETHIOPIA

Political impact of higher inflation distorting economic decision-making

Citi Research considered that economic and political developments in Ethiopia over the past six months have been positive for the economy. It noted that political uncertainties in Ethiopia have had a limited impact on economic activity, while authorities did not ease fiscal policy in response to protests. However, it said that policy developments have been unable to address concerns about the country's exchange rate policy and wide current account deficit. It considered that Ethiopia's main macroeconomic concern is its wide current account deficit rather than its growth and fiscal trends. It added that the National Bank of Ethiopia needs to implement more aggressive policies to improve the competitiveness of the exchange rate and to support export growth. It said that the 15% devaluation of the Ethiopian birr in late 2017 has reduced the overvaluation of the birr, but did not eliminate it. It pointed out that the current exchange rate regime, amid the low level of foreign currency reserves, has contributed to foreign currency shortages, and has adversely impacted economic growth. It added that the authorities' concerns about the political impact of a significant rise in inflation rates, in case they further devalue the birr, continue to distort economic decision-making. Overall, Citi did not expect major policy changes in 2018 and forecast strong economic growth rates in coming years. It also anticipated FDI inflows and funding from official lenders to continue to finance the current account deficit, even if the latter significantly weighs on the exchange rate.

Source: Citi Research

ANGOLA

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'B-' Angola's long-term foreign and local currency sovereign ratings, with a 'stable' outlook. It indicated that the ratings balance the rapid rise in the government's debt stock over the past few years, with the implementation of reforms such as fiscal consolidation and exchange rate flexibility. It projected real GDP growth to accelerate from 1.2% in 2017 to 2.7% annually in the 2018-21 period. It forecast the average inflation rate at 28% in 2018 amid a weaker kwanza. Further, the agency anticipated the fiscal deficit to narrow from 5.4% of GDP in 2017 to 2.1% of GDP annually in the 2019-21 period, and for the public debt level to regress from 74.3% of GDP at end-2018 to 64.3% of GDP by end-2021. Also, it expected interest payments on the public debt to exceed 20% of revenues in the 2018-21 period, partly due to higher interest rates. It added that debt servicing costs would become unsustainable in case domestic interest rates continue to be high, and if authorities fail to narrow the fiscal deficit and improve liquidity in the banking system. Further, S&P forecast the current account deficit to narrow from 4.7% of GDP in 2017 to 3.1% of GDP this year, mainly due to higher export receipts. It expected Angola's gross external financing needs to exceed 100% of current account receipts plus usable reserves during the 2018-21 period. It anticipated the adjustment to the exchange rate to prevent a significant depletion in foreign currency reserves that fell below $20bn at end-October 2017.

Source: S&P Global Ratings

CÔTE d'IVOIRE

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Côte d'Ivoire's long-term foreign and local currency Issuer Default Ratings (IDR) at 'B+', with a 'stable' outlook. It said that the IDRs are supported by the country's strong macroeconomic performance, low inflation rate, prudent macroeconomic policies, structural trade surplus and moderate debt ratios. But it noted that the ratings are constrained by low governance and development indicators, two debt defaults since 1999, a high dependence on agricultural commodities and persistent risks to political stability. It anticipated political and security tensions to pose downside risks to macroeconomic stability and fiscal consolidation in the run-up to the 2020 presidential elections. It projected real GDP growth to average 7.2% annually in the 2017-19 period, supported by domestic demand and strong public investment under the 2016-20 National Development Plan. Further, the agency forecast the fiscal deficit to slowly narrow from 4.5% of GDP in 2017 to 4.1% of GDP in 2018 and to 3.5% of GDP in 2019, amid a limited increase in tax collection and pressure on spending from security risks and election-related expenditures. It projected the government's debt to rise from 42.9% of GDP in 2017 to 45% of GDP in 2018. It noted that the government initiated a plan to clear its arrears of about 3% of GDP. In parallel, Fitch expected the current account deficit to widen from an average of 0.1% of GDP annually in the 2014-16 period to 2.7% of GDP in the 2017-19 period due to lower cocoa export receipts and sustained growth in capital imports. But it considered that risks to external financing are moderate, mainly because of FDI inflows that it projects at 1.8% of GDP annually between 2017 and 2019.

Source: Fitch Ratings

UAE

Agency affirms ratings of five banks

Fitch Ratings affirmed the long-term Issuer Default Ratings of First Abu Dhabi Bank (FAB) and HSBC Bank Middle East (HBME) at 'AA-' and those of Emirates NBD (ENBD), Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB) at 'A+'. It attributed the affirmation of the ratings of FAB, ENBD, UNB and ADCB to the extremely high probability of government support, while it said that HBME's rating reflects a very strong institutional support from its parent, HSBC Holdings, in case of need. It added that the government's strong capacity to support banks is underpinned by large sovereign wealth funds, the government's stake in a number of banks and the moderate size of the sector relative to the country's GDP. In parallel, the agency maintained the Viability Ratings (VR) of FAB at 'a-', that of HBME at 'bbb', that of UNB at 'bbb-' and the VRs of ENBD and ADCB at 'bb+'. It noted that ENBD's VR is mainly supported by the bank's improved profitability, strong customer base and healthy capital position, but is constrained by its high impaired loans ratio, moderate share of restructured loans and high lending concentration. It added that ADCB's VR is driven by the bank's solid franchise, low level of impaired loans, stable capital ratios, and good liquidity and performance metrics. Also, it said that UNB's VR balances its strong capitalization, and profitability, adequate liquidity and established franchise with a moderate deterioration in its asset quality.

Source: Fitch Ratings

MOROCCO

New accounting rules to weigh on banks' capital position

Fitch Ratings anticipated the implementation of the International Financial Reporting Standard IFRS-9 accounting rules in January 2018 to weigh on Moroccan banks' already weak capital positions. It indicated that the banks have a limited ability to absorb the impact of IFRS-9, which requires the deduction of expected and incurred credit losses from most loans, because of the banks' relatively weak capital buffers and loan-loss reserve coverage. It added that Moroccan banks calculate capital adequacy ratios according to Basel II and that tangible common equity represents about 10% of tangible assets at major banks in the country, which reflects a limited buffer given their single-name borrower concentrations. Further, it pointed out that major banks do not fully allocate reserves for impaired loans and that some banks are slow to recognize credit losses. It noted that the expected loan-loss reserve shortfalls of banks, following the implementation of IFRS-9, could reduce their Tier One capital adequacy ratio by about two percentage points. It did not expect major Moroccan banks to breach the minimum regulatory capital ratios, as Bank Al-Maghrib could allow a five-year transition period for banks to strengthen their balance sheets and make up for the shortfalls in their reserves, in line with other international regulators. In parallel, Fitch said that Moroccan banks would allocate the majority of additional reserves for loans that are classified as "Stage 2", which include loans in the watch list category. It added that loans classified as "Stage 3", and which show signs of credit impairment, have already been adequately reserved.

Source: Fitch Ratings

OMAN

Profits of banks up 7% in fourth quarter of 2017

The aggregate earnings of five Omani banks totaled OMR75m, or $195.1m, in the fourth quarter of 2017, up by 1.8% from the previous quarter and by 7.1% from the same period of 2016, due to higher net interest and non-interest income. The banks' net interest income grew by 3.3% year-on-year and by 1.3% quarter-on-quarter to $346m in the fourth quarter of 2017. Also, the banks' non-interest income increased by 39.1% year-on-year and by 33.7% quarter-on-quarter to $208.1m in the fourth quarter of last year. Further, the aggregate lending of the banks reached OMR16.3bn, or $42.5bn, at the end of 2017, up by 1.6% from end-September 2017 and by 5.2% from end-2016. Regional investment bank EFG Hermes expected a similar trend in lending growth in 2018, mainly driven by demand from corporates. It noted that Omani banks benefit from resilient asset quality metrics, but it considered that the real estate, construction and retail sectors represent downside risks to asset quality. Further, the banks' aggregate deposits grew by 2.2% year-on-year to OMR14.6bn, or $38bn, at the end of 2017. However, customer deposits declined by 0.6% from end-September 2017, as banks did not renew some deposits that have high funding costs. As such, the banks' liquidity tightened, with their loan-to-deposit ratio rising from 109% at end-2016 and from 110% at end-September 2017 to 112% at the end of 2017. Overall, the banks' aggregate profits totaled $762m in 2017, while their assets reached $56.5bn at the end of 2017.

Source: EFG Hermes

TURKEY

Higher funding costs and deteriorating asset quality are key bank weaknesses in 2018

S&P Global Ratings expected the profitability of Turkish banks to weaken in 2018 despite their strong performance in 2017, due to a contraction in their net interest margin from higher funding costs, a slowdown in lending activity and an increase in the corporate income tax rate from 20% to 22%. It noted that lower credit support from the government's fiscal stimulus package, including the Credit Guarantee Fund, as well as tighter monetary policy to reduce inflationary pressure and limit the depreciation of the Turkish lira, would weigh on the banks' activity. It anticipated that the cost of the swap transactions between the Central Bank of Turkey and banks to support demand for lira-denominated loans, would significantly impact the banks' earnings. Overall, it considered that rising funding costs and deteriorating asset quality remain key weaknesses for the banks in 2018. It pointed out that heightened risks in the banks' operating environment could increase the vulnerability of their funding and asset quality to lira depreciation and political risks. It added that the large net open foreign currency position of corporate borrowers, estimated at about 26% of GDP, indirectly exposes the banks' asset quality to currency depreciation risks. It said that the banking sector hedges against foreign currency risk, but it noted that the banks' foreign currency funding could be at risk if their hedges become ineffective due to rollover and counterparty risks. Also, it indicated that further lira depreciation could potentially undermine some borrowers' repayment ability, given that about one-third of loans are denominated in foreign currency.

Source: S&P Global Ratings

Oil prices trade in a highly volatile range

ICE Brent crude oil front-month prices have been volatile so far in February 2018, trading at a low of $62.6 per barrel (p/b) and a high of $69.7 p/b. Several factors have influenced the movement of prices in recent weeks, including data about U.S. crude oil production and inventories, increased volatility in global financial markets, the fluctuation of the US dollar and concerns over a rise in the U.S. inflation rate. Oil prices rebounded from a two-month low of $62.6 p/b on February 12, 2018 to close at $64.4 p/b on February 14, mainly driven by a weaker US dollar and a smaller-than-anticipated increase in U.S. oil inventories, and after Saudi Arabia and other OPEC members reiterated their commitment to the oil production cuts. In parallel, Jadwa Investment anticipated the oil market to remain highly volatile in coming months, amid uncertainties about OPEC's decision to continue with the agreed production cuts after its meeting in June 2018, as well as expectations of a sustained rebound in U.S. shale oil output. It considered that, in case OPEC members decide to withdraw from the agreement in their upcoming meeting, they would still have to agree on a gradual increase in output to ensure an orderly exit. It added that pressure on oil prices would emerge in case of a disorderly exit where some producers would begin to increase output, such as Iran and Iraq. Overall, it forecast Brent oil prices to average $60 p/b in 2018.
Source: Jadwa Investment, Thomson Reuters, Byblos Research

OPEC's oil basket price up 8% in January 2018

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged $66.85 per barrel (p/b) in January 2018, constituting an increase of 7.7% from $62.1 p/b in the preceding month. Algeria’s Saharan blend crude oil was at $69.93 p/b, followed by Nigeria’s Bonny Light at $69.92 p/b and Angola’s Girassol at $69.77 p/b. All 14 prices included in the OPEC reference basket posted monthly increases that ranged from $3.1 p/b to $5.28 p/b in January 2018.
Source: OPEC, Byblos Research

Iraq’s oil exports down 1% in January 2018

Iraq's crude oil exports reached 108.2 million barrels in January 2018, constituting a decrease of 1.3% from the previous month. The country's oil exports reached 3.49 million barrels per day (b/d) in January 2018 relative to a record high of 3.53 million b/d in December 2017. In fact, all exports in the covered month originated from the country’s central and southern fields, as there were no shipments from the northern Kirkuk fields. Iraq’s oil export receipts reached $6.5bn in January, up by 8% from $6bn in the previous month, with the average sale price rising from $59.3 per barrel in December 2017 to $63.3 p/b in January 2018.
Source: Iraq Ministry of Oil, 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 12.5 million b/d in 2018, which would constitute a rise of 1.9% 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 3.15 million b/d in 2018, up by 1.6% from 3.1 million b/d in 2017.
Source: OPEC, Byblos Research

Base Metals: Copper prices to exceed $7,000 a ton in 2018

Copper prices are forecast to average $7,125 per ton in 2018, which would reflect an increase of 15% from $6,195 a ton in 2017, due to a shift in the copper market from a production surplus of 21,000 tons in 2017 to a deficit of 75,000 tons this year. The shift to a supply deficit reflects expectations of strong growth in global copper demand this year in case of resilient global economic growth and of disruptions to mine production. In fact, the metal’s demand is forecast to increase by 2.5% to 23.6 million tons this year, driven by a 5% rise in the metal’s consumption by the automotive sector, as well as a 3% growth in the copper usage in the construction sector. In parallel, the metal’s supply is projected to increase by 2% to 23.5 million tons in 2018, but is expected to remain constrained by higher production costs, as well as continued supply-side disruptions. In this context, labor contract negotiations are expected to take place at many of the world’s leading copper producers in 2018, which could put global copper supply at risk and, in turn, would support prices. Downside risks to the price outlook include a softer-than-anticipated Chinese demand for the metal, mainly by the real estate sector.
Source: Citi Research, Byblos Research

Precious Metals: Platinum prices to rise due to improved diesel-engine vehicle sales in Europe

Platinum prices are forecast to average $1,000 per troy ounce in 2018, which would constitute an increase of 5.3% from an average of $950 an ounce in 2017. The expected rise in the metal’s prices reflects improved diesel-engine vehicle sales in Europe, which would support the metal’s demand. In fact, platinum demand is forecast to grow by 3.1% to 7.7 million ounces in 2018, driven by a rise of 5.6% in autocatalyst demand for the metal. Further, autocatalyst consumption is projected to reach 3.5 million ounces in 2018, which would represent 45.8% of total platinum demand, followed by jewelry demand with 2.6 million ounces (33.4%) and industrial demand with 1.5 million ounces (19.5%). In parallel, platinum production is forecast at 8.1 million ounces this year, nearly unchanged from 2017, with mine production accounting for 79.2% of the metal’s output. As such, the production surplus in the platinum market is expected to narrow from 561,000 ounces in 2017 to 383,000 ounces in 2018. Downside risks to the metal’s price outlook in 2018 include a quicker-than-projected decrease in diesel-engine market share in Europe, as well as a shift in consumers’ spending away from luxury goods, which would weigh on the metal’s jewelry demand.
Source: Citi Research, Byblos Research

Copper Prices vs. US Dollar Index

Source: Thomson Reuters Datastream, 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/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
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 S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	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	31-Jan-18	No change	21-Mar-18
Eurozone	Refi Rate	0.00	25-Jan-18	No change	08-Mar-18
UK	Bank Rate	0.50	08-Feb-18	No change	22-Mar-18
Japan	O/N Call Rate	-0.10	23-Jan-18	No change	09-Mar-18
Australia	Cash Rate	1.5	06-Feb-18	No change	06-Mar-18
New Zealand	Cash Rate	1.75	08-Feb-18	No change	21-Mar-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	N/A
Taiwan	Discount Rate	1.375	21-Dec-17	No change	22-Mar-18
South Korea	Base Rate	1.50	18-Jan-18	No change	27-Feb-18
Malaysia	O/N Policy Rate	3.25	25-Jan-18	Raised 25bps	07-Mar-18
Thailand	1D Repo	1.50	14-Feb-18	No change	28-Mar-18
India	Reverse repo rate	6.00	07-Feb-18	Cut 25bps	N/A
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	07-Mar-18
South Africa	Repo rate	6.75	18-Jan-18	No change	28-Mar-18
Kenya	Central Bank Rate	10.00	24-Jan-18	No change	27-Mar-18
Nigeria	Monetary Policy Rate	14.00	23-Jan-18	No change	21-Mar-18
Ghana	Prime Rate	20.00	22-Jan-18	No change	26-Mar-18
Angola	Base rate	18.00	29-Jan-18	No change	28-Feb-18
Mexico	Target Rate	7.50	08-Feb-18	Raised 25bps	12-Apr-18
Brazil	Selic Rate	6.75	07-Feb-18	Cut 25bps	21-Mar-18
Armenia	Refi Rate	6.00	14-Feb-18	No change	28-Mar-18
Romania	Policy Rate	2.25	07-Feb-18	Raised 25bps	05-Apr-18
Bulgaria	Base Interest	0.00	01-Feb-18	No change	01-Mar-18
Kazakhstan	Repo Rate	9.75	15-Jan-18	Cut 50bps	20-Feb-18
Ukraine	Discount Rate	16.00	25-Jan-18	Raised 150bps	01-Mar-18
Russia	Refi Rate	7.50	09-Feb-18	Cut 25bps	03-Mar-18

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (+961) 1 338 100
Fax: (+961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293