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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Debt issuance at $350bn in first eight months of 2018

Figures compiled by Citi Research show that emerging markets (EMs) issued $350bn in external sovereign and corporate bonds in the first eight months of 2018, down by 15% from $412bn in the same period of 2017. Gross debt issuance in Asia excluding Japan reached $168bn or 48% of the total, followed by the Middle East & Africa (ME&A) with $81bn (23.1%), Latin America with $58bn (16.6%) and Emerging Europe with $42bn (12%). Further, EM corporates issued $236bn in bonds in the first eight months of the year, equivalent to 67.4% of total sovereign and corporate bond issuance. Asia ex-Japan issued $158bn, or 67% of total corporate issuance, followed by Latin America with $31bn (13.1%), the ME&A region with $25bn (10.6%) and Emerging Europe with $21bn (8.9%). Also, EM sovereigns issued $114bn in bonds, or 32.6% of new sovereign and corporate bonds in the covered period. The ME&A region issued $56bn, or 49.1% of total new sovereign bonds, followed by Latin America with $27bn (23.7%), Emerging Europe with $21bn (18.4%) and Asia ex-Japan with $10bn (8.8%). Further, Citi Research projected upcoming EM sovereign external debt service payments at $17.7bn between August and October 2018, of which $7bn, or 39.5% of the total, is from Latin America, $5.7bn (32.2%) from Emerging Europe, $3.4bn (19.2%) from the ME&A region and $1.6bn (9%) from Asia ex-Japan. It also expected upcoming EM corporate external debt service payments at $25.6bn between August and October 2018, of which $13bn, or 50.8% of the total, is from Asia ex-Japan, $5.5bn (21.5%) from Emerging Europe, $3.9bn (15.2%) from Latin America and $3.2bn (12.5%) from the ME&A region.
Source: Citi Research, Byblos Research

MENA

IPOs up 43% to $882m in second quarter of 2018

Figures released by EY indicated that capital raised through initial public offerings (IPOs) in the Middle East & North Africa (MENA) region totaled $881.5m in the second quarter of 2018, up by 42.8% from $617.4m in the same quarter of 2017. There were nine IPOs in the MENA region in the second quarter of 2018, relative to eight IPOs in the same period of 2017. Capital raised through IPOs in the MENA region accounted for 2% of the total worldwide, while the number of IPO deals in the region represented 2.8% of the number of global IPOs. Also, seven IPOs in the GCC region raised a total of $780.3m in the second quarter of 2018. On a country basis, four IPOs in Saudi Arabia raised $517.7m in the second quarter of 2018, which is equivalent to 58.7% of the MENA region's total; followed by one IPO in each of Egypt, Morocco and Oman that raised $57.2m (6.5%), $44m (5%) and $12.8m (1.5%), respectively. Further, IPOs in the real estate sector raised $553m, or 62.7% of the MENA region's total, followed by the oil & gas sector with $225m (25.5%) and the financial services sector with $57.2m (6.5%).
Source: EY

Stock markets up 8% in first eight months of 2018

Arab stock markets improved by 8.3% and Gulf Cooperation Council equity markets increased by 9% in the first eight months of 2018, relative to increases of 1.8% and 0.9%, respectively, in the same period of 2017. In comparison, global equities grew by 1.7%, while emerging market equities regressed by 10.2% in the covered period. Activity on the Khartoum Stock Exchange jumped by 190.5% in the first eight months of 2018, the Tunis Bourse surged by 34.8%, the Qatar Stock Exchange grew by 16%, the Abu Dhabi Securities Exchange expanded by 13.4%, the Saudi Stock Exchange increased by 10%, the Egyptian Exchange rose by 6.6%, the Boursa Kuwait grew by 1.4%, the Damascus Securities Exchange improved by 1.3%, and the Bahrain Bourse expanded by 0.5%. In contrast, activity on the Beirut Stock Exchange declined by 22.3% in the first eight months of 2018, the Dubai Financial Market dropped by 15.7%, the Muscat Securities Market regressed by 13.3%, the Casablanca Stock Exchange decreased by 6.8%, the Palestine Exchange and the Amman Stock Exchange declined by 6.6% each, and the Iraq Stock Exchange retreated by 3.3% in the covered period. In parallel, activity on the Tehran Stock Exchange increased by 44% in the first eight months of 2018.
Source: Local stock markets, Dow Jones Indices, Byblos Research

Banks' lending conditions tighten in second quarter of 2018

The Emerging Markets Lending Conditions Index for the Middle East & North Africa (MENA) region decreased from 46.4 in the first quarter of 2018 to 44.4 in the second quarter of 2018. The MENA region had the least favorable lending conditions among emerging markets in the covered quarter, behind Emerging Asia (53), Sub-Saharan Africa (50.8), Emerging Europe (47.7) and Latin America (46.9). The MENA region's Trade Finance Index decreased significantly to 51.8 in the second quarter of 2018 from 54.8 in the preceding quarter due to a decline in the demand and supply of international trade finance, while the Funding Conditions Index reached 45.2 in the covered quarter, down from 47.6 in the first quarter of 2018, due to tighter domestic funding conditions. In addition, the Credit Standards Index dropped to 43.8 in the second quarter of the year from 44.6 in the first quarter of 2018, as credit standards for corporate loans as well as for commercial and residential real estate loans tightened. Also, the Non-Performing Loans Index declined to 42.9 in the second quarter of 2018 from 45.2 in the first quarter of 2018, which reflects an increase in NPLs from the previous quarter. Further, the Demand for Loans Index regressed to 41.4 in the covered quarter from 43.7 in the first quarter of 2018 due to lower demand for corporate, commercial real estate and consumer loans.
Source: Institute of International Finance

POLITICAL RISK OVERVIEW - August 2018

DEM REP CONGO

The ruling coalition announced that President Joseph Kabila will not run in the presidential election scheduled for December 2018, and that it would be represented by the secretary general of the People's Party for Reconstruction and Development Emmanuel Ramazani Shadary. The Catholic Church, as well as the opposition and international community, welcomed President Kabila's decision to step down and said that authorities must ensure a free, fair and credible vote. Jean-Pierre Bemba, leader of the opposition party Movement for the Liberation of Congo, also submitted his candidacy, but was disqualified from running due to his conviction by the International Criminal Court for witness tampering. The main opposition parties reaffirmed their intention to unite behind a single candidate. The army launched offensives against the Nduma Defence of Congo armed group to take control of the Kasugho and Kagheri areas in Lubero territory.

EGYPT

Security forces arrested former diplomat Maasoum Marzouk and six others in Cairo on charges of aiding terrorist groups and organizing protests for a referendum about President Abdel Fattah el Sisi's government. Security conditions improved in the Sinai province despite several clashes between security forces and Islamic State (IS) militants in North Sinai. President Sisi signed a new law that tightens controls over internet usage and allows the government to block websites that constitute a threat to national security or to the economy. Egypt continued its efforts with the United Nations to broker a truce between Israel and Hamas.

IRAN

The U.S. reinstated on August 7 the unilateral sanctions on Iran that were lifted in the 2015 nuclear deal. The German, French and the UK Foreign Ministers, along with the EU foreign policy chief, issued a joint statement regretting the re-imposition of sanctions, and updated the Blocking Statute to shield European firms from U.S. penalties. The Iranian Parliament questioned President Hassan Rouhani about the country's economic crisis, and dismissed the labor and finance ministers. Militants of the Democratic Party of Iranian Kurdistan clashed with Iran's Islamic Revolutionary Guard Corps near the northwestern city of Oshnavieh. Iran, Russia, Azerbaijan, Turkmenistan and Kazakhstan signed a deal to divide the potentially huge oil & gas resources in the Caspian Sea.

IRAQ

The Supreme Court ratified the newly-released results from the partial recount of the votes for the May parliamentary elections, which did not show major discrepancies from the initial results. Several political parties announced new alliances in an effort to form a new government. In this context, Prime Minister Haider Al-Abadi, Shiite clerics Moqtada al-Sadr and Ammar al-Hakim, and former interim Prime Minister Iyad Allawi agreed to unite their coalitions and form the largest parliamentary bloc; while Sunni politicians formed the National Axis Alliance. The United Nations estimated the remaining number of IS militants in Iraq and Syria at 20,000 to 30,000 fighters. Turkey continued its airstrikes against the Kurdistan Workers' Party in Northern Iraq.

LIBYA

The Seventh Brigade, which is an armed group established by the Defense Ministry, clashed with a coalition of armed groups operating under the Libyan Ministry of Interior over the control of territories and institutions in Tripoli. The High Council of State, an advisory body formed under the Libyan Political Agreement that was signed in 2015, along with 80 members of the Tobruk-based House of Representatives, called on the UN to restart a dialogue to change the composition of the GNA's Presidency Council. A Tripoli court of appeal sentenced 45 people to death and 54 people to five years in prison for killings committed during the country's 2011 uprising.

SUDAN

Sudanese authorities handed over to the U.S. Embassy in Khartoum the second set of proposals about the normalization of relations with the U.S. and Sudan's removal from the list of states sponsoring terrorism. Rebel groups the Sudan Liberation Movement faction led by Minni Minnawi, the Justice and Equality Movement and the Sudan Liberation Movement-Transitional Council, declared the extension for three months of a unilateral cessation of hostilities in the Darfur region. The Sudanese and Ethiopian armies signed an agreement to withdraw troops from both sides of the border and to deploy joint forces to combat terrorism and human trafficking, as well as to eliminate any potential security tensions.

SYRIA

Pro-regime forces initiated plans to recapture the northwestern province of Idlib. Iranian forces reportedly withdrew their forces 85 kilometers away from the Israeli-held Golan Heights, but Israel demanded Iranian forces to completely leave Syria. Iran responded that it would maintain a military presence in Syria as part of its cooperation agreement with Damascus. The Jordanian army shelled IS militants near the Syrian-Jordanian borders, while Iraq carried an airstrike on IS militants near the Syrian-Iraqi border. The Syrian Democratic Forces attempted to retake IS-held territories in the east of Syria.

TUNISIA

President Beji Caid Essebsi announced that he would submit a draft bill to Parliament that equalizes inheritance rights between men and women. The announcement prompted around 5,000 persons to protest against the proposed reform, while thousands rallied in support of the bill. Also, repeated water cuts provoked several demonstrations across the country. Police clashed in the southern town of Ben Guerdane with locals who called for the reopening of the Ras Jedir border crossing with Libya, which led authorities to reopen the crossing after a six-week closure.

TURKEY

Turkey continued its military operations against the Kurdistan Workers' Party, as well as its crackdown on the pro-Kurdish Peoples' Democratic Party and Democratic Regions' Party. It also called on the Syrian regime to suspend its military operation in Idlib in order to avoid an additional influx of refugees to Turkey. Despite ongoing U.S. cooperation with Turkey in the Syrian city of Manbij, the U.S. imposed sanctions on the Turkish justice and interior ministers over Turkey's refusal to free U.S. pastor Andrew Brunson. It also doubled tariffs on Turkish aluminum and steel products, and blocked Turkey's access to F-35 fighter jets. In response, President Recep Tayyip Erdoğan called for the boycott of electronic products from the U.S. and hiked tariffs on U.S. products. Qatar pledged $15bn in investments in Turkey.

YEMEN

United Nations Special Envoy Martin Griffiths said that Houthi rebels and President Abd Rabbuh Mansur Hadi's government will meet in Geneva on September 6, in order to discuss disarmament and setting up a transitional political operation in the country. Efforts by the UN Special Envoy slowed the United Arab Emirates-backed campaign to capture the port city of Hodeida. However, the UAE-backed forces reportedly took the town of Durayhimi, which is located south of Hodeidah. An airstrike by the Saudi-led coalition hit a school bus in the northern Saada region, killing dozens of children. The Saudi-led coalition investigated the incident following increased international pressure, including from senior U.S. Pentagon officials, and admitted that the attack was unjustified.

Source: International Crisis Group, Newswires

ANGOLA

Growth outlook improves on fiscal consolidation and reform efforts

South African bank Absa projected Angola's real GDP to grow by 2.2% in 2018 and 2.5% in 2019 compared to a contraction of 2.5% in 2017, supported by the increased availability of foreign currency, as well as higher global oil prices, domestic oil production and public spending. It noted that authorities have prioritized fiscal consolidation, greater exchange rate flexibility and a reduction in the public debt level in coming years. It said that the government's macroeconomic stabilization program focuses on structural reforms that aim to diversify the economy and support inclusive growth. However, it noted that despite improving growth prospects, the ongoing reform efforts could take time to filter through the economy. Further, it forecast the inflation rate at 19.9% in 2018 and 16.2% in 2019, amid expected adjustments to domestic fuel prices and utilitiy tariffs. It anticipated the inflation rate to remain contained despite the possibility of further currency depreciation, given that Angola's price settings already incorporate the parallel foreign currency rate.

In parallel, Absa expected that the ongoing reforms and a potential IMF program would improve Angola's fiscal and external balances. It projected the fiscal deficit to narrow from 6.1% of GDP in 2017 to 3.3% of GDP in 2018 and 2.9% of GDP in 2019 due to higher oil export receipts. It forecast the public debt level to peak at 83% of GDP at the end of 2018, mainly due to currency depreciation, and to decline to 81% of GDP at end-2019. Further, it projected the current account balance to post a deficit of 0.2% of GDP in 2018 compared to 0.8% of GDP in 2017, and to shift to a surplus of 0.2% of GDP in 2019, amid higher oil export receipts. It anticipated Angola's capital and financial accounts to be supported by higher investment inflows and loan disbursements in coming years. It forecast foreign currency reserves to grow from $18.5bn at end-2018 and $21.2bn at end-2019.

Source: Absa

TURKEY

Currency depreciation to weaken growth prospects

Goldman Sachs indicated that the sharp depreciation of the Turkish lira will weigh on the economy, as it would increase inflationary pressure, reduce domestic demand and force a current account adjustment. It noted that the authorities' response to the currency crisis has been limited to measures that aim to manage the lira and foreign-currency liquidity, and has been insufficient to reduce the market volatility. It expected the currency depreciation to significantly weigh on Turkey's high inflation rate. As such, it revised its projections for the inflation rate to 22.5% at the end of 2018 and 12% at end-2019 from earlier forecasts of 14% and 19%, respectively. Further, it projected the inflation rate to peak at 25% in the first quarter of 2019, based on its assumption of a 15% exchange rate pass-through and in case the exchange rate depreciates in line with the forward pricing. It added that the steepness of the currency sell-off could induce larger price adjustments and lead to a higher inflation rate.

In parallel, Goldman Sachs anticipated the one-week repo rate to rise by about 800 basis points from 17.75% currently to 25% by the end of 2018, which would help support the rebalancing of the economy. It said that authorities will mostly use fiscal policies to rebalance the economy. It also expected authorities to keep the interest rate corridor around the one-week repo rate largely unchanged. It anticipated the Central Bank of the Republic of Turkey to forego flexibility in day-to-day liquidity management. In parallel, it noted that Turkey's financial conditions have tightened by about five percentage points since April 2018, mainly due to large increases in its longer-term yields and the widening of its CDS spreads. It anticipated financial conditions to further tighten, which would reduce domestic demand by about 9% this year. Further, it projected Turkey's trade balance to shift to a positive territory over the remainder of 2018 and to remain in surplus in 2019. It anticipated the current account deficit to balance by end-2018 and to post a small surplus of about 1% of GDP in 2019. Overall, it expected real GDP growth to contract sharply in the second half of 2018 and to average 3.5% in 2018, before contracting by 3.5% in 2019 amid lower domestic demand.

Source: Goldman Sachs

PAKISTAN

Large external financing needs to limit government options

Citi Research expected the new Pakistani government to approach the International Monetary Fund (IMF) for an economic program by the end of September 2018, given the country's large external financing gap. It noted that the new government is still in its early stages and that the economic policy direction is highly uncertain. It added that the government has not yet made any official discussions or requests to seek IMF support. But it said that Pakistan's large external funding gap, projected at $31.1bn in the fiscal year that ends in June 2019, leaves the country with limited options and, as such, will require authorities to resort to an IMF program. It indicated that implementing an austerity plan would be more difficult and riskier economically and politically than an IMF program. It added that the program will help the government unlock additional funding from other multilateral and bilateral lenders, as well as from the private sector. However, Citi pointed out that the IMF program will be stricter than the programs that Pakistan sought in previous years, and will include more structural reforms, which could lengthen the negotiations. Overall, it projected Pakistan's gross external financing needs to expand from $27.3bn in FY2017/18 to $31bn in FY2018/19 and $45bn in FY2021/22. It also forecast the country's external debt service to increase from $7.5bn in FY2017/18 to $19bn in FY2019/20.

In parallel, Citi expected the government's reform agenda to prioritize tighter fiscal and monetary policies, a flexible exchange rate and addressing the ongoing losses in public-sector enterprises (PSEs). It said that authorities should reverse income tax cuts in the FY2019 budget, broaden the tax base, increase excise taxes, improve tax administration and contain current spending, especially from the provinces, in order to reduce the fiscal deficit. Further, it anticipated monetary authorities to increase the interest rates by at least 100 basis points, and to allow for a more flexible exchange rate, in line with the IMF's recommendations. Also, it considered that authorities should contain the sharp build-up of PSE debt through the restructuring of PSEs and privatization. Citi noted that the government will have to resort to import controls, large spending cuts, currency depreciation and interest rate hikes in case it fail to secure an IMF program.

Source: Citi Research

TURKEY

Currency depreciation to weigh on growth

Fitch Ratings expected that the sharp depreciation of the Turkish lira will weigh on economic activity in the country. As such, it revised downward its real GDP growth forecasts to 3.8% in 2018 and 1.2% in 2019 from earlier projections of 4.5% and 3.6%, respectively. It expected growth to recover to 3.9% in 2020, but to remain below the country's growth trend in previous years. It noted that its revised projections assume that authorities will continue to take short-term measures to support the lira and that the Central Bank of the Republic of Turkey will raise interest rates. It added that downside risks to the growth outlook include policy uncertainty, heightened financial stress in the private sector, geopolitical tensions, and potential capital outflows. In parallel, Fitch projected the current account deficit to narrow from 3.9% of GDP in 2018 to 1.7% of GDP in 2019, as currency weakness and the significant economic slowdown would reduce imports and boost exports. It added that slower growth would lead to the deterioration of the country's fiscal position through lower government revenues. As such, it forecast the fiscal deficit to widen to 3.2% of GDP this year and 3.6% of GDP next year, before narrowing to 2.9% of GDP in 2020. In parallel, Capital Intelligence Ratings downgraded Turkey's long-term foreign- and local-currency ratings from 'BB+' to 'BB-', with a 'negative' outlook. It noted that the currency depreciation increases Turkey's exposure to a hard landing, raises the foreign-currency debt burden of banks and non-financial corporates, and reduces foreign investor sentiment towards the country.

Source: Fitch Ratings, Capital Intelligence Ratings

TUNISIA

Growth contingent on commitment to reforms

The International Monetary Fund indicated that Tunisia's real GDP grew by 2.6% year-on-year in the first half of 2018, supported by stronger activity in the agricultural, tourism and services sectors. It noted that the government's commitment to reducing its fiscal imbalances is improving, and that the budget execution in the first half of 2018 was consistent with the significant narrowing of the fiscal deficit and the reduction of the high public debt level this year. However, it indicated that the economy remains constrained by its high reliance on consumption and imports, subdued investments, very high unemployment rate and elevated inflation rate. It added that money supply and credit have increased rapidly and that the Tunisian dinar has further depreciated, which would increase inflationary pressure in coming months. In parallel, it said that the expected narrowing of the current account deficit has been delayed amid high imports and subdued foreign-currency inflows. It noted that Tunisia's external environment has become more challenging due to higher oil prices and volatile global financial markets. The IMF considered that authorities should continue implementing reforms that aim to reduce the fiscal deficit, stabilize the public debt level and reduce the excessive demand for imports. It called on the government to pursue reforms of untargeted energy subsidies, to carefully manage the public-wage bill, and to put the public and private pension funds on a sustainable path. It noted that additional economic reforms, including strengthening governance and tackling corruption, are vital to improve investor confidence.

Source: International Monetary Fund

GHANA

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Ghana's long-term foreign-currency issuer default rating (IDR) at 'B', with a 'stable' outlook. It said that the rating balances the country's strong growth prospects, improving macroeconomic stability and strong governance indicators, with its elevated public and external debt levels, low per capita GDP and weak development indicators. It noted that real GDP growth accelerated from 3.7% in 2016 to 8.5% in 2017, mainly due to new oil production coming online faster-than-previously expected. But it projected growth to stabilize at or above 6% annually through 2020, as oil production gradually normalizes. Further, it forecast the fiscal deficit to narrow from 5.9% of GDP in 2017 to 5.5% of GDP in 2018, amid reduced capital spending and lower interest payments. But it considered that the cost of a clean-up of the financial sector and the expected clearance of payment arrears could widen the deficit during the remainder of 2018. It said that downside risks to fiscal consolidation include difficulties in raising revenues, the existing debt overhang, as well as possible fiscal slippages ahead of the 2020 general elections. Further, it projected the public debt level to reach 69% of GDP at the end of 2018 relative to a peak of 73% of GDP at end-2016. In parallel, it pointed out that the IMF-supported program has encouraged the government's efforts to improve the latter's public finances since 2015. But it did not anticipate authorities to seek a follow-on program when the current one expires in the first quarter of 2019, which could lead to slower progress on reforms. Also, it forecast the current account deficit to narrow from an average of 9.5% of GDP annually in the 2012-16 period to 4.2% of GDP in 2018, due to higher gold and oil export receipts.

Source: Fitch Ratings

BAHRAIN

Insurance sector faces moderate industry risk

S&P Global Ratings assessed as "moderate" the overall risk level of the property and casualty (P/C) insurance sector in Bahrain. It indicated that the assessment is derived from a "high" country risk and a "moderate" industry risk level for the domestic P/C insurance sector. The risk scale ranges from "low" to "intermediate", "moderate" and "high". S&P noted that the "high" country risk reflects the country's modest level of wealth and the rapid accumulation of the already high government debt level, which are impeding economic policy effectiveness. Further, it said that Bahrain's high gross external financing needs and low foreign currency reserves could limit the country's access to external liquidity. In parallel, it noted that the industry risk assessment for Bahrain's P/C insurance sector is supported by low product risk, a well-established regulatory framework, and moderate profitability. It considered that the insurance sector's low product risk reflects Bahrain's limited catastrophe risk and long-tail risk exposure. However, it noted that the limited growth prospects and the low barriers to enter the overcrowded market constitute key risks to the Bahraini P/C sector. It indicated that the sector's return on equity stood at 5.4% in 2016 and averaged 6.9% annually in the 2012-16 period. It added that the premium income growth remained almost stable at below 2% annually during the 2015-17 period, and expected this trend to continue in 2018.

Source: S&P Global Ratings

JORDAN

Construction and trade account for 43% of overall lending at end-June 2018

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks in Jordan totaled JD25.8bn, or $36.4bn, at the end of June 2018, constituting an increase of 4.3% from JD24.7bn at end-2017 and a rise of 7.3% from JD24.1bn at end-June 2017. Credit in foreign currency represented 11% of the total at the end of June 2018 relative to 10.8% a year earlier. The resident private sector accounted for 87.7% of total credit at end-June 2018 relative to 87.1% a year earlier; followed by the central government with 8.3%, down from 9.3% at end-June 2017; the non-resident private sector with 2.3%, up from 2% a year earlier; and public entities with 1.6%, unchanged from end-June 2017. The distribution of credit by sector shows that construction represented JD6.8bn or 26.3% of the total at end-June 2018, nearly unchanged from 26.4% a year earlier; while general trade accounted for JD4.4bn or 17.1% of the total, down from 17.4% at end-June 2017. Public services & utilities followed with JD3.9bn or 15% of the total, then industry with JD3bn (11.5%); financial services with JD715.3m (2.8%); tourism, hotels & restaurants with JD587.8m (2.3%); transportation with JD359.5m (1.4%); and agriculture with JD340.6m and mining with JD327.2m (1.3% each). Further, other sectors accounted for JD5.4bn, or 21.1% of total credit, of which JD152.9m were extended to buy shares. In parallel, loans & advances reached JD16.8bn at end-June 2018, followed by Islamic banks' receivables with JD5.6bn, overdrafts with JD3bn, discounted bills with JD197.2m and credit cards with JD171.6m.

Source: Central Bank of Jordan, Byblos Research

TURKEY

Banking risks increase amid currency depreciation

Fitch Ratings indicated that the sharp depreciation of the Turkish lira exposes banks to increased refinancing, funding, asset quality and capitalization risks. First, it said that Turkish banks face refinancing risks, given their reliance on external funding, with $102bn in foreign debt maturing in the next 12 months. The agency estimated the banks' refinancing requirements, net of more stable sources of funding, mainly from parent banks, at $55bn, which can be comfortably covered by banks. But it noted that a scenario whereby banks have to finance their foreign debt would weigh on the Central Bank of the Republic of Turkey's foreign currency reserves, policy rates and economic growth, and increase currency pressure. Second, it considered that deposit outflows could adversely impact the banks' funding and liquidity profiles, but noted that deposits have been broadly stable, as the decline in foreign-currency deposits was offset by higher local-currency deposits. Third, it expected the currency depreciation to weaken the banks' asset quality, given their high and concentrated foreign-currency loans. It forecast the banks' non-performing loans ratio to rise, given the borrowers' exposure to the lira's weakness, possible interest rate increases and weaker GDP growth. It said that the weaker asset quality should become visible in the banks' IFRS 9 disclosures at end-2018. Fourth, it anticipated the currency depreciation, higher interest rates and weaker asset quality to weigh on the banks' capital positions.

Source: Fitch Ratings

EGYPT

Listed banks' profits up 30% in second quarter of 2018

The aggregate earnings of Commercial International Bank, Crédit Agricole Egypt, Abu Dhabi Islamic Bank-Egypt, Al Baraka Bank Egypt, Housing & Development Bank, Egyptian Gulf Bank, and Faisal Islamic Bank reached EGP4.4bn, equivalent to $246.8m, in the second quarter of 2018, up by 30.4% from the same quarter of 2017. The growth in the banks' earnings was mainly supported by higher net interest income amid strong lending growth. Also, the banks' aggregate lending reached EGP208.2bn, or $11.6bn, at the end of June 2018, up by 15.5% from end-June 2017, driven by a pick-up in foreign-currency credit growth and in new short-term corporate lending. The banks' aggregate deposits grew by 13.3% year-on-year to EGP556bn, or $31bn, at end-June 2018, supported by higher local-currency deposits. As such, the loans-to-deposits ratio increased from 36.7% at the end of June 2017 to 37.4% at end-June 2018. Further, the banks' non-performing loans (NPLs) ratio decreased to 4.1% at end-June 2018 from 6% at end-June 2017, due to lower nominal NPLs and strong credit growth. In parallel, Moody's Investors Service affirmed at 'B3' the long-term local currency deposit ratings of state-owned banks National Bank of Egypt, Banque Misr and Banque Du Caire. It also affirmed the ratings of Commercial International Bank at 'B3' and of Bank of Alexandria at 'B2'. The agency revised the outlook on the banks' ratings from 'stable' to 'positive', in line with its recent action on the sovereign rating. It expected the improvement in the government's creditworthiness to support the standalone credit profile of Egyptian banks.

Source: EFG Hermes, Moody's Investors Service

OMAN

Profits of banks up 9% in second quarter of 2018

The aggregate earnings of the National Bank of Oman, Bank Muscat, Bank Sofar and Bank Dhofar totaled OMR74m, or $192.2m, in the second quarter of 2018, up by 8.8% from the same quarter of 2017, mainly due to higher non-interest and net interest income. The banks' non-interest income increased by 12.6% year-on-year to OMR60m in the second quarter of the year, while their net interest income grew by 6.2% year-on-year to OMR134m in the covered quarter. In parallel, the aggregate lending of the four banks reached OMR16.53bn, or $42.9bn, at the end of June 2018, up by 3.4% from end-June 2017. In parallel, the banks' customer deposits grew by 2.1% from end-June 2017 to OMR15bn, or $39bn, at the end of June 2018. As such, the banks' loans-to-deposits ratio stood at 110.2% at end-June 2018 compared to 108.7% at end-June 2017. Also, the banks' aggregate non-performing loans ratio reached 3.41% at end-June 2018 compared to 2.87% a year earlier, due to a deterioration in the asset quality of the banks. In parallel, Fitch Ratings expected the net interest margins of Omani banks to decline in 2018 as interest rates continue to increase. It said that higher interest rates are leading to an increase in the cost of the banks' deposit base, and that banks have a limited ability to re-price their assets to offset this increase. However, it anticipated that the banks' funding costs will grow at a slower pace than interest rates, given that a large share of the funding is from current and savings accounts that do not pay market-based interest rates.

Source: EFG Hermes, Fitch Ratings

Oil prices up 38% in first eight months of 2018

ICE Brent crude oil front-month prices averaged $73.8 per barrel (p/b) in August 2018, down by 1.5% from $75 p/b in the previous month, while they grew by 42.4% from an average of $51.9 p/b in August 2017. Further, oil prices averaged $72 p/b in the first eight months of 2018, constituting a rise of 38% from $52.2 p/b in the same period of 2017. The decline in August's average oil price reflects risks of Turkey's currency crisis spreading to other emerging markets, as well as the likelihood of the U.S. imposing additional tariffs on China, with both factors raising demand-side concerns. In contrast, the expected U.S. sanctions on Iran's oil sector were the main factor that supported oil prices. According to Bloomberg, Iran could resort to several tactics in order to keep about 800,000 barrels a day of its oil exports flowing after U.S. sanctions resume in November, including discounts and bartering, among others. Further, oil prices have been recently supported by concerns about Libya and Nigeria's oil output, as both countries prepare for elections in coming months. As such, oil prices have traded at between $76 p/b and $78 p/b in the past two weeks. Overall, Brent oil prices are expected to average $74.8 p/b in the third quarter of 2018 and $74.4 p/b in the fourth quarter of 2018.
Source: Thomson Reuters, Bloomberg, Oilprice, Byblos Research

Iraq's oil exports up 1% in August 2018

Iraq's crude oil exports totaled 111.1 million barrels in August 2018, constituting an increase of 1.1% from 109.9 million barrels in July. The country's oil exports reached 3.6 million barrels per day (b/d) in August 2018 relative to 3.54 million b/d in the previous month. 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 $7.7bn in August 2018, up by 2.6% from $7.5bn in July.
Source: Iraq Ministry of Oil, Byblos Research

Saudi Arabia's crude oil output at 10.4 million b/d in August

Saudi Arabia's oil production reached 10.42 million barrels per day (b/d) in August 2018, constituting an increase of 1.3% from 10.29 million b/d in July. In comparison, Saudi Arabia's oil output declined by 1.9% month-on-month in July 2018. The increase in output reflects the country's return to a 100% compliance rate to the output quotas under the current OPEC oil production agreement. The decline in production in July was due to lower exports after Saudi Arabia halted oil shipments through Bab al Mandeb, following attacks by Houthi rebels on Saudi oil tankers.
Source: Thomson Reuters

U.S. sanctions on Iran could raise oil prices by $21 p/b in one year

The U.S. plans to enforce a second set of sanctions on Iran's oil exports in November 2018. European, Japanese, South Korean and Taiwanese buyers, along with private refineries in India, are expected to comply with the new sanctions; while China is anticipated to maintain its current import volumes. If the reinstatement of U.S. sanctions leads to a loss of about 1.2 million barrel per day in Iranian production, similar to output losses in 2012, the impact on global oil prices could be twice as large, given the current global oil stock levels and very low spare capacity. As such, oil prices could increase by $21 per barrel (p/b) within a year, compared to an increase of about $10 p/b in 2012.
Source: The Oxford Institute for Energy Studies

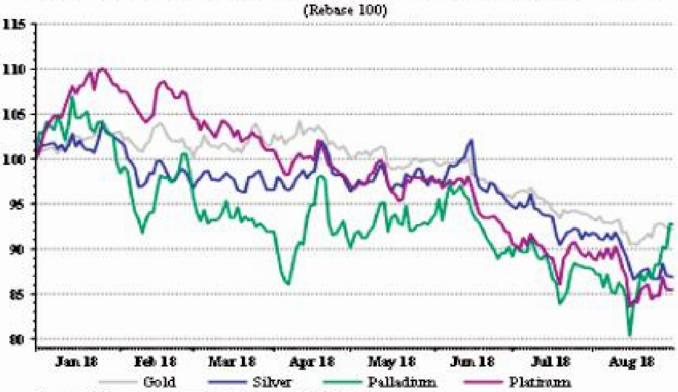
Base Metals: Nickel prices hit their lowest level since mid-January 2018

LME nickel three-month future prices averaged $13,496 per metric ton in August 2018, constituting a decrease of 2.8% from an average of $13,889 per ton in July 2018. The drop in nickel prices was mainly driven by escalating trade tensions between the U.S. and China, and their adverse impact on the demand for base metals, as U.S. President Trump prepares to impose new tariffs on an additional $200bn worth of Chinese imports as soon as a public comment period on the decision ends this week. Also, the metal's price was subdued by weaker-than-expected growth in the Chinese manufacturing sector. In fact, a weaker Purchasing Managers' Index for China raised concerns about a slowdown in China's property sector, which is one of the world's major consumers of nickel. Further, a stronger US dollar, lower demand from emerging markets, as well as an increase in nickel ore inventories in China and rising stainless steel inventory have led to the drop in nickel prices to $12,440 per ton on September 5, 2018, their lowest level since mid-January of this year. Still, nickel prices are projected to average $14,270 per ton in 2018 and to increase to an average of $15,325 per ton in 2019, supported by expectations of higher demand for electric cars and an anticipated deficit in the nickel market during the 2018-19 period.
Source: ABN Amro, Thomson Reuters

Precious Metals: Gold prices at their lowest level since early 2017

Gold prices averaged $1,201.8 per troy ounce in August 2018, down by 2.9% from an average of $1,238 an ounce in July 2018, constituting the lowest monthly average since $1,192.3 an ounce in January 2017. The drop in the metal's price is due to a stronger US dollar against both emerging and developed market currencies, especially against the euro, the Chinese yuan and the Turkish lira, as well as to delays in policy rate hikes by the European Central Bank and the Bank of Japan. However, increased physical demand is likely to support gold prices in the fourth quarter of 2018, as the metal's low current price is expected to raise jewelry purchases, especially in China and India. In addition, further upside risks for the metal's 2018 price outlook could originate from the continued U.S.-China trade dispute, as well as from uncertainties between the U.S. and Canada in their renegotiations of the North American Free Trade Agreement. As such, gold prices are expected to recover to $1,250 an ounce by the end of the year. However, downside risks to gold prices include further U.S. interest rate hikes during the remainder of the year.
Source: World Gold Council, ABN Amro, Thomson Reuters

Price Performance of Precious Metals in First Eight Months of 2018
(Rebase 100)



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+								
	-	-	-	-	Negative	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B-	B3	B	-	B-								
	Stable	Stable	Stable	-	Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B	B3	B	B	B+								
	Stable	Positive	Positive	Positive	Positive	-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	-	BB-								
	Positive	Stable	Stable	-	Stable	-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	-	Stable	-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+	-	BB-								
	Stable	Stable	Negative	-	Stable	-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	-	B2	B+	-	BB-								
	-	Stable	Negative	-	Negative	-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	Stable	-	Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
Middle East													
Bahrain	B+	B2	BB-	BB	BB+								
	Stable	Negative	Stable	Stable	Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
Iran	-	-	-	BB-	BB-								
	-	-	-	Negative	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	Stable	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	Stable	Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
Oman	BB	Baa3	BBB-	BBB	BBB-								
	Stable	Negative	Negative	Negative	Positive	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
Qatar	AA-	Aa3	AA-	AA-	A+								
	Negative	Stable	Stable	Negative	Negative	-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								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
Yemen	-	-	-	-	CC								
	-	-	-	-	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-								
	-	Positive	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	B+	Ba3	BB	BB+	BB-								
	Stable	Negative	Negative	Negative	Stable	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7

** including grants for Sub-Saharan African countries*
*** to official creditors*
****Credit Watch Negative*
Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2017

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.75-2.00	01-Aug-18	No change	26-Sep-18
Eurozone	Refi Rate	0.00	26-Jul-18	No change	13-Sep-18
UK	Bank Rate	0.75	02-Aug-18	Raised 25bps	13-Sep-18
Japan	O/N Call Rate	-0.10	31-Jul-18	No change	19-Sep-18
Australia	Cash Rate	1.50	04-Sep-18	No change	02-Oct-18
New Zealand	Cash Rate	1.75	08-Aug-18	No change	26-Sep-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-18
Canada	Overnight rate	1.50	05-Sep-18	No change	24-Oct-18
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.75	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	21-Jun-18	No change	27-Sep-18
South Korea	Base Rate	1.50	31-Aug-18	No change	18-Oct-18
Malaysia	O/N Policy Rate	3.25	05-Sep-18	No change	08-Nov-18
Thailand	1D Repo	1.50	08-Aug-18	No change	19-Sep-18
India	Reverse repo rate	6.50	01-Aug-18	Raised 25bps	05-Oct-18
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	16-Aug-18	No change	27-Sep-18
Turkey	Repo Rate	17.75	24-Jul-18	No change	25-Sep-18
South Africa	Repo rate	6.50	19-Jul-18	No change	20-Sep-18
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	24-Jul-18	No change	25-Sep-18
Ghana	Prime Rate	17.00	23-Jul-18	Cut 100bps	24-Sep-18
Angola	Base rate	16.50	17-Jul-18	Cut 150bps	24-Sep-18
Mexico	Target Rate	7.75	02-Aug-18	No change	04-Oct-18
Brazil	Selic Rate	6.50	01-Aug-18	No change	19-Sep-18
Armenia	Refi Rate	6.00	14-Aug-18	No change	25-Sep-18
Romania	Policy Rate	2.50	06-Aug-18	No change	03-Oct-18
Bulgaria	Base Interest	0.00	03-Sep-18	No change	28-Sep-18
Kazakhstan	Repo Rate	9.00	03-Sep-18	No change	15-Oct-18
Ukraine	Discount Rate	17.50	12-Jul-18	Raised 50bps	06-Sep-18
Russia	Refi Rate	7.25	27-Jul-18	No change	14-Sep-18

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