500 ISSUES+
Issue 557 | October 25, 2018

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Sovereign creditworthiness remains above 'BBB-'

S&P Global Ratings indicated that the average sovereign rating of 132 rated sovereigns was slightly above 'BBB-' at the end of September 2018, nearly unchanged from the end of 2017 and from end-September 2017. It noted that the average sovereign rating becomes 'A+' at the end of September 2018 when the ratings are weighted by nominal GDP. Also, S&P pointed out that 53.8% of the covered sovereigns had an investment-grade rating of 'BBB-' or above at end-September 2018, up from 52.7% at the end of 2017. It added that 33.3% of the ratings were in the 'B' category or below at the end of September 2018, up from 32.1% at end-2017, reflecting a slight deterioration in the credit quality of sovereigns that are rated at the lower end of the rating scale. Also, the agency noted that 17 sovereigns carried a 'positive' outlook and 11 countries had a 'negative' outlook at the end of September 2018. In comparison, it pointed out that 14 countries had a 'positive' outlook, while 11 sovereigns had a 'negative' outlook at end-2017. In parallel, S&P indicated that there were 18 sovereign upgrades and 15 sovereign downgrades during the 12 months that ended in September 2018, compared to 19 sovereign upgrades and 26 downgrades in 2017.

Source: S&P Global Ratings

Private equity funds raise $121bn in third quarter of 2018

Research provider Preqin indicated that 214 private equity (PE) funds raised a total of $121.3bn in capital commitments worldwide in the third quarter of 2018, compared to 304 PE funds that raised $96.2bn in the previous quarter and 355 PE funds that secured $143.4bn in the third quarter of 2017. Also, it said that 45 buyout funds raised $67.5bn in the third quarter of 2018, or 55.7% of total capital commitments, followed by 34 growth funds with $24.5bn in raised capital (20.2%), 101 venture capital funds with $17.8bn (14.7%) in capital commitments, seven secondaries funds with $4bn in raised capital (3.3%), and eight funds of funds with $2.3bn in capital commitments (1.9%). On a regional basis, 126 PE funds with a primary focus on North America secured $81.6bn in the third quarter of 2018, or 67.2% of total capital commitments, followed by 36 European-focused PE funds with $25.4bn (20.9%) and 39 Asian-focused funds with $10.5bn (8.7%). The survey indicated that there were 3,921 PE funds seeking to raise an aggregate of $956bn in capital at the start of the fourth quarter of 2018, compared to 2,023 PE funds that were seeking to raise an aggregate of $706bn in capital at the start of the fourth quarter of 2017. It indicated that 1,438 out of the 3,921 private equity funds are seeking to raise $472bn to be invested in North America, followed by 1,737 private equity funds aiming to raise $308bn in capital to be invested in Asia, and 437 funds seeking to raise $130bn in capital to be invested in Europe.

Source: Preqin

MENA

Competitiveness of Arab economies improves in 2018

The World Economic Forum's Global Competitiveness Index for 2018 indicated that the UAE is the 27th most competitive economy among 140 countries worldwide and the most competitive economy among 14 Arab countries included in the survey. Qatar follows in 30th place, then Saudi Arabia (39th), Oman (47th) and Bahrain (50th) as the five most competitive Arab economies. In contrast, the survey considered Tunisia (87th), Algeria (92nd), Egypt (94th), Mauritania (131st) and Yemen (139th) to be the least competitive Arab economies. Further, the rankings of six Arab countries regressed, those of five improved, while the rankings of three Arab countries were unchanged year-on-year. The WEF modified the methodology for this year's index and adjusted the 2017 results accordingly. It attributed the methodology revision to new fundamental changes in the functioning of economies, following the emergence of what it called the "fourth industrial revolution". The Arab region's average score stood at 58.4 points, up from 57.7 points in the previous survey. The GCC countries' average score grew from 65.8 points in the previous survey to 67 points, while the average score of non-GCC Arab economies increased marginally from 51.5 points in the 2017 survey to 52 points. The scores of 12 Arab countries improved, while the scores of two economies declined year-on-year. The UAE came in first place regionally on the Enabling Environment, Markets and Innovation Ecosystem categories, while Qatar ranked first among Arab countries on the Human Capital category.

Source: World Economic Forum, Byblos Research

Nation brand value varies across Arab world

The Nation Brands Index for 2018 estimated the brand value of the UAE at $707bn, the 20th highest globally and the highest among 16 Arab countries. Saudi Arabia followed at $677bn (21st), then Qatar at $256bn (40th), Kuwait at $209bn (47th), Egypt at $121bn (56th), Algeria at $89bn (58th), Iraq at $73bn (64th), Morocco at $56bn (64th), Oman at $53bn (71st), Sudan at $42bn (75th), Bahrain at $30bn (86th), Jordan at $26bn (90th), Tunisia at $24bn (91st),Yemen at $24bn (92nd), Lebanon at $22bn (94th) and Libya at $18bn (100th). The index, which is issued by brand valuation and strategy consultancy firm Brand Finance, measures the strength and value of the nation brand of 100 countries based on the "royalty relief mechanism" methodology that is used to value the world's largest companies. The brand value of 14 Arab countries increased and that of two economies regressed from the 2017 Index. In parallel, the survey rates each country's brand strength by the performance of the Investment, Goods & Services, and Society pillars. The UAE has a rating of 'AAA', Qatar has a rating of 'AAA-', Bahrain's rating is at 'AA+', Saudi Arabia and Oman have an 'AA' rating each, Jordan, Kuwait and Morocco are rated at 'AA-' each, Egypt, Lebanon and Tunisia have a rating of 'A+' each, Algeria is rate at 'A', Yemen has a rating of 'BBB', Iraq and Sudan have a rating of 'CC' each, and Libya's rating is at 'C'. The survey upgraded the brand strength ratings of Libya, while it downgraded that of Qatar

Source: Brand Finance, Byblos Research

OUTLOOK

EGYPT

Medium-term outlook dependent on reforms

The Institute of International Finance indicated that Egypt's macroeconomic fundamentals are improving, as reflected by its strong economic growth, narrowing fiscal and current account deficits, receding inflation rate and declining public debt level. It projected Egypt's real GDP growth to reach 5% in the fiscal year that ends in June 2019 compared to a growth rate of 5.3% in FY2017/18, supported by a sustained recovery in the tourism sector and rising natural gas production. However, it said that the country's medium-term outlook is uncertain due to the structural bottlenecks and a less favorable global environment, including tighter financial conditions and uncertainty over the global trade system. It added that growth could decelerate to 4% by 2022 in the absence of deeper structural reforms, which would be lower than the required growth rates of 5% to 6% to reduce the public debt to more sustainable levels. It noted that risks to the outlook are tilted to the downside and include a slowdown in the implementation of reforms, a deterioration in security conditions, as well as a faster-than-expected U.S. monetary tightening.

The IIF added that the Central Bank of Egypt's monetary policy has reduced inflationary pressures and contained the second-round effects from the sharp depreciation of the Egyptian pound and from the increase in fuel and electricity prices. It projected the average inflation rate to regress from 20.9% in FY2017/18 to 14.5% in FY2018/19, as the impact of energy price increases recedes. It expected authorities to keep the policy rates at their current levels in coming months to ease inflationary pressures.

In parallel, the IIF projected the fiscal deficit to narrow from 9.4% of GDP in FY2017/18 to 8.6% of GDP in FY2018/19, due to fiscal consolidation, higher tax receipts and lower fuel subsidies. It said that the budget for FY2018/19 aims to reduce fuel and electricity subsidies by 19% and 48%, respectively, but that this would be difficult to achieve amid the increase in global oil prices. It forecast the public debt level to regress from 101.4% of GDP in FY2017/18 to 97% of GDP in FY2018/19. Further, it projected the current account deficit to narrow from 2.4% of GDP in FY2017/18 to 1.7% of GDP in FY2018/19, due to higher exports. It expected foreign currency reserves to grow from $40.4bn at end-June 2018 to $42.5bn at end-June 2019.

Source: Institute of International Finance

ANGOLA

Prevailing imbalances to delay economic recovery

BNP Paribas expected Angola's real GDP to shrink by 1.2% in 2018 following a contraction of 2.5% in 2017, despite the increase in global oil prices and the new government's policies and efforts, and mainly due to lower oil production from maintenance at some oil fields. It anticipated economic activity to grow by 3.1% in 2019, supported by new hydrocarbon output from the Kaombo oil field and by a more flexible foreign exchange regime. However, it expected the recovery to be slow, as the country continues to face major macroeconomic imbalances, including challenges in the hydrocarbon sector from under-investments, as well as persistently high inflation, foreign currency shortages, reduced household purchasing power and a weak banking sector. It projected the average inflation rate to reach 20.5% in 2018 and 15.8% in 2019, relative to 31.7% in 2017.

In parallel, the bank indicated that the Angolan government is trying to improve foreign investors' perception of the domestic business climate by simplifying administrative red tape to attract FDI inflows, as well as by planning to privatize about 74 state-owned companies in the medium term. It said that the Angolan kwanza has depreciated by about 40% against the US dollar since January 2018, and that the spread between the official and parallel exchange rates remains high but is gradually narrowing.

In parallel, BNP Paribas expected the increase in oil prices to ease the pressure on Angola's public and external balances. It projected the fiscal balance to post a deficit of 0.3% of GDP in 2018 and to shift to a surplus of 2.6% of GDP in 2019. It anticipated the public debt level to regress from 70.8% at end-2018 to 68.1% of GDP at end-2019. Further, it expected the current account balance to post a deficit of 1.6% of GDP in 2018 and to shift to a surplus of 0.5% of GDP in 2019. It forecast foreign currency reserves to grow from $15bn, or 5.2 months of import cover at end-2018, to $18bn, or 6.1 months of import cover at end-2019.

Source: BNP Paribas

IRAQ

Non-hydrocarbon growth to reach 7% in 2019

The Institute of International Finance indicated that economic conditions in Iraq are improving, amid rising oil production and the start of the reconstruction phase following the defeat of Islamic State (IS) militants. It projected real GDP to grow by 2.8% in 2018 and 3.7% in 2019, following a contraction of 0.8% in 2017. It expected hydrocarbon output to expand by 1.7% in 2018 and 1.5% in 2019, relative to a contraction of 2.2% in 2017. However, it noted that Iraq imports most of its local need of petroleum products despite an increase in oil output, as major domestic refineries were damaged during the war with the IS group. It considered that the increase in output from the Baji refinery would support economic growth and reduce the need for imports of petroleum products. Further, it forecast growth in the non-hydrocarbon sector to accelerate from 1.5% in 2017 to 4.5% in 2018 and 7% in 2019, as the government begins its reconstruction plan supported by the $30bn funds pledged by international donors last February. It added that the government is facing growing pressure to provide clean water, electricity, and basic infrastructure for the recovered areas, but it estimated that rebuilding the infrastructure will take a long period of time. It pointed out that Iraqi authorities still have to implement reforms to improve the weak business environment, such as reducing corruption and reforming the electricity sector.

In parallel, the IIF indicated that Iraq's fiscal situation is recovering mainly due to higher global oil prices. It forecast the fiscal balance to shift from a deficit of 2.3% of GDP in 2017 to a surplus of 1.3% of GDP in 2018, despite a large increase in current spending, and then to shift back to a deficit of 2.6% of GDP in 2019. It projected the public debt level to regress from 58.1% of GDP at end-2017 to 50.2% of GDP at end-2018 and 50.7% of GDP at end-2019. Further, it expected the current account surplus to improve from 3.3% of GDP in 2017 to 12.6% of GDP this year and 7.6% of GDP in 2019, while it anticipated foreign currency reserves to increase from $45.1bn at the end of 2017 to $57.1bn at end-2018 and $67.1bn at end-2019.

Source: Institute of International Finance

ECONOMY & TRADE

EMERGING MARKETS

Tightening monetary policy to weigh on capital flows to emerging markets

S&P Global Ratings indicated that the global environment for emerging market (EM) economies has become more challenging in recent months, as rising U.S. interest rates, a strong US dollar, and global trade tensions are weighing on investor sentiment. As such, it noted that foreign capital flows to EMs, excluding China, slowed down in the second and third quarters of 2018. It expected capital flows to EMs to remain under pressure in the next two years, as monetary policies tighten in major advanced economies. It anticipated the U.S. Federal Reserve to increase interest rates once during the remainder of this year and three times in 2019, which would further weigh on capital flows to EMs. In parallel, S&P pointed out that the term premium on 10-year U.S. bond yields, which is the compensation investors require for holding a long-term bond instead of rolling over short-term bonds with lower maturity, has recently increased. It said that any additional increases in the term premium would reduce the attractiveness of EM assets, resulting in a further slowdown or even a reversal in foreign capital flows to EMs. In addition, S&P noted that the European Central Bank (ECB) will start normalizing its monetary policy in 2019, while other central banks in advanced European economies outside the Eurozone will follow similar path. It expected the ECB to end additional asset purchases under its quantitative easing program in December 2018, to begin a cycle of interest rate hikes in the third quarter of 2019, as well as to raise its interest rates twice a year in 2020 and in 2021. As such, it anticipated riskier EM assets to become less attractive to investors, as returns on euro-denominated assets increase.

Source: S&P Global Ratings

DEM REP CONGO

Economic activity improves in first half of 2018

IHS Markit indicated that the Democratic Republic of Congo's (DRC) economic performance has improved in the first half of 2018, which bodes well for inflation and the stability of the currency. It noted that the Banque Central du Congo projected real GDP growth to accelerate from 3.7% in 2017 to 4.2% in 2018, supported by net external demand, mostly for cobalt, copper and oil. In addition, it pointed out that the fiscal balance shifted from a deficit of CDF107.7bn in the first half of 2017 to a surplus of CDF552.2bn in the same period of 2018, due to higher revenues, improved tax collection, as well as prudent management of public expenditures. Further, it indicated that the balance of payments posted a surplus of 1.5% of GDP in the first half of 2018, driven by a surplus of 6% of GDP in the capital and financial accounts that was partly offset by a deficit of 2.2% of GDP in the current account. Also, it noted that the cumulative inflation rate stood at 5.2% at end-June 2018, relative to 20.7% at end-June 2017, supported by monetary tightening and a more stable currency. It added that the exchange rate depreciated by 2.1% in the official market and by 1.9% in the parallel market in the first half of 2018, compared to a depreciation of 19.1% and 17.9%, respectively, in the first half of 2017. IHS pointed out that a slowdown of the Chinese economy would lead to a decline in mining prices and, in turn, to lower foreign currency reserves.

Source: IHS Markit, Banque Centrale du Congo

SAUDI ARABIA

Higher spending to support economic activity

Bank of America Merrill Lynch anticipated that authorities in Saudi Arabia will increase public spending in the second half of 2018 onwards to support economic activity, as reflected by higher global oil prices and the 2019 pre-budget statement that details fiscal metrics for the 2018-21 period. It noted that the 2019 pre-budget statement revised upward fiscal spending by about SAR90bn, which makes the spending path more realistic. However, it said that the gradual rise in the fiscal breakeven oil price and the erosion of fiscal buffers since 2014 increase the economy's vulnerability to a sustained drop in oil prices. It estimated that oil prices need to remain above $60 p/b and fiscal reforms must continue, in order to help the fiscal deficit narrow towards mid-single digits over the medium term. It pointed out that fiscal spending could increase to reflect Saudi Arabia's financial support to several countries, including Bahrain, Jordan and Pakistan, as well as to other humanitarian funds. It added that authorities could be tempted to increase public sector employment, given the weak labor market outcomes over the past year and a half. In parallel, it estimated that the planned mega-projects could add about two percentage points to non-hydrocarbon real GDP growth in the medium term. But it noted that such projects require funding following the financing gap that resulted from the delay of Saudi Aramco's IPO. Overall, it considered that Saudi Arabia's budgetary requirements over the medium term mean that authorities remain committed to stability in the energy market.

Source: Bank of America Merrill Lynch

QATAR

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Qatar's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'AA-', with a 'stable' outlook. It noted that the ratings balance the country's return to budget surpluses, strong net external and public sector asset position, and elevated GDP per capita, with its relatively elevated government debt level, high reliance on the hydrocarbon sector, and moderate scores on measures of governance and doing business. The agency expected the general government's fiscal balance, including the estimated investment income from public sector external assets, to shift from a deficit of 2.9% of GDP in 2017 to a surplus 4.7% of GDP in 2018, as the expansion in hydrocarbon revenues outpaces the growth in overall spending. It projected the fiscal surplus to widen slightly to 5.1% of GDP in 2019, reflecting the implementation of the excise tax and of the value-added tax, as well as the moderation in oil prices. It expected the surplus to moderate to 3.3% of GDP in 2020. Further, it estimated Qatar's sovereign net foreign assets to have declined from $251bn at end-2016 to $241bn at end-2017, but that they remain significantly higher than most 'AA' and 'A'-rated peers. In parallel, it forecast the public debt at 58% of GDP at end-2018, well above the median of about 40% of GDP for similarly-rated peers. It said that Qatar will not have net financing requirements during the 2018-20 period, which would allow it to use some of the proceeds from the $12bn external bond issuance in April 2018 to support foreign currency reserves or reduce domestic borrowing. Further, it expected the non-hydrocarbon sector to drive overall economic activity in the 2018-20 period.

Source: Fitch Ratings

BANKING

BAHRAIN

Banking sector assessment maintained

S&P Global Ratings maintained Bahrain's banking sector in 'Group 7' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '7' and an industry risk score of '6'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 7' include Croatia, Indonesia, Morocco and Romania. S&P indicated that Bahrain's economic risk score reflects its "very high" credit risk in the economy, as well as "high risks" in economic resilience and economic imbalances. It added that the economic risk balances the country's relatively diversified economy and high per capita GDP, against elevated credit risks stemming from slower economic growth and high borrower and industry concentrations. It noted that the banks' exposure to the construction and real estate segments accounts for 35% of their commercial loans as at end-June 2018, which poses risks to the banking sector amid the ongoing corrections in these segments. In parallel, the agency pointed out that the industry risk score reflects the sector's "high risks" in its competitive dynamics and its system-wide funding, as well as "intermediate risks" in its institutional framework. It said that banking regulation and supervision is adequate, while banks benefit from elevated government deposits. But it noted that Bahrain's overbanked population increases competition among banks and squeezes interest margins. S&P indicated that the trend for economic and industry risks is "stable".

Source: S&P Global Ratings

PAKISTAN

Outlook on ratings revised to 'negative' on challenging operating environment

Capital Intelligence Ratings (CI) affirmed at 'B-' and 'B' the long- and short-term foreign currency ratings (FCRs), respectively, of Habib Bank, National Bank of Pakistan (NBP), United Bank, MCB Bank (MCB), Bank Alfalah, Askari Bank, Standard Chartered Bank (SCBP) and Faysal Bank. It also revised the outlook on the banks' long-term FCRs from 'stable' to 'negative' due to their significant exposure to the sovereign, as well as to Pakistan's vulnerability to financing risks that are expected to increase over the next 12 months. In parallel, the agency downgraded the Financial Strength Rating (FSR) of United Bank and MCB from 'BB+' to 'BB', of Habib Bank, NBP and Bank Alfalah from 'BB' to 'BB-', and the FSR of Askari Bank from 'BB-' to 'B+'; while it affirmed the FSR of SCBP at 'BB' and of Faysal Bank at 'B+'. It revised the outlook on all the banks' FSRs from 'stable' to 'negative', in line with the revision on the long-term FCRs. It attributed the FSR downgrades to the banks' poor profitability metrics, significant holdings of government securities, as well as to Pakistan's weak fiscal and external positions, decreasing foreign currency reserves, and prevailing debt repayment pressures. However, it pointed out that Habib Bank, NBP and United Bank's exposures to the sovereign are mitigated by the fact that their investments in government securities are largely denominated in local currency and have short-term maturities. CI said that the FSRs of most banks are supported by good liquidity metrics, a solid capital position and adequate loan-loss provisioning coverage.

Source: Capital Intelligence Ratings

TUNISIA

Outlook on banks revised to 'negative' on reduced government support capacity

Moody's Investors Service affirmed at 'B3' the long-term foreign currency deposit ratings of Amen Bank, Arab Tunisian Bank (ATB), Banque de Tunisie (BdT), Banque Internationale Arabe de Tunisie (BIAT), and Société Tunisienne de Banque (STB). It also affirmed at 'B2' the local-currency deposit ratings of Amen Bank, ATB, BdT and BIAT, and at 'B3' that of STB. However, Moody's revised the outlook on the banks' long-term deposit ratings from 'stable' to 'negative', due to the government's reduced capacity to support the banks amid tightening global financing conditions. It added that the outlook revision takes into account the country's weakened foreign currency reserves and wide current account deficit, which would increase currency risks and add negative pressure on the banks' operating environment. It noted that these challenges are exacerbated by weak underwriting standards, which has led to industry and single-name concentrations, inaccurate collateral valuations and an inefficient loan recovery system. Further, it considered that the interest rate cap mechanism, which prevents the accurate risk pricing of individual loans, along with an expected deceleration of lending growth, would add pressure on the banks' profits and asset quality. On the funding and liquidity side, Moody's indicated that the high reliance of banks on collateralized funding from Banque Centrale de Tunisie weighs on their creditworthiness, as it raises refinancing risks in the context of constrained government finances. In parallel, it noted that the ratings' affirmation reflects its expectations that the banks' credit profiles, including asset-quality metrics, loss-absorption buffers and liquidity measures, will remain at their current weak levels.

Source: Moody's Investors Service

TURKEY

Ratings affirmed on five foreign-owned banks

Fitch Ratings affirmed at 'BB-' the long-term foreign currency Issuer Default Ratings (IDRs) of Alternatifbank, Burgan Bank Turkey, ICBC Turkey Bank, and BankPozitif Kredi ve Kalkinma Bankasi (BankPozitif), and at 'B+' the IDR of Turkland Bank (T-Bank). It maintained the 'stable' outlook on T-Bank and the 'negative' outlook on the remaining banks. It indicated that the ratings' affirmation reflects the probability of institutional support from the banks' higher-rated foreign parents in case of need. In parallel, Fitch downgraded the Viability Ratings (VRs) of Burgan Bank Turkey and BankPozitif from 'b+' to 'b', of Alternatifbank from 'b+' to 'b-', and the VR of T-Bank from 'b' to 'b-', while it affirmed the VR of ICBC Turkey Bank at 'b+'. It removed the banks' VRs from Rating Watch Negative following its rating actions. The agency attributed the downgrades of the VRs to the increasing risks to the banks' standalone credit profiles following the significant depreciation of the Turkish lira, the hike in interest rates, and the weaker growth outlook. It added that the pressure on the banks' performance, asset quality, capitalization, as well as liquidity and funding profiles increased following the recent period of market volatility, amid rising risks of a hard landing for the economy and a deterioration in investor sentiment.

Source: Fitch Ratings

ENERGY / COMMODITIES

Oil prices reach two-month low of $76.4 p/b

The global oil market has been affected over the past two weeks by expectations of a sharp reduction in Iranian oil supply, as well as by concerns about the pace of global economic and oil demand growth. However, the ongoing global trade tensions, the volatility affecting emerging markets and their currencies, as well as a stronger US dollar, started to overshadow market fears that OPEC and non-OPEC members may not be able to offset lower Iranian output and the sustained decline in Venezuela's oil production. As such, ICE Brent crude oil front-month prices reached $76.4 per barrel (p/b) on October 23, 2018, their lowest level since August 28, and declined by 4.2% from the previous day, constituting the steepest day-to-day decline since mid-July 2018. The decrease in oil prices was due to easing supply concerns, as Saudi Arabia reiterated its readiness to meet global demand for oil. However, upside risks to the price outlook include the upcoming U.S. sanctions on Iran's oil exports, which will take effect on November 4. In this context, China's state-owned oil refiners and Iran's biggest oil customers, Sinopec Group and China National Petroleum Corporation, have not ordered any oil from Iran for November due to concerns about violating the anticipated U.S. sanctions. Overall, Citi expected Brent oil prices to average slightly below $80 p/b in the fourth quarter of 2018 and to be in the high $70s p/b in the first quarter of 2019.

Source: CNBC, Oilprice, Thomson Reuters, Citi

Armenia's exports of precious stones and metals down 13% in 2017

Exports of precious stones and metals from Armenia totaled $291m in 2017, constituting a decrease of 13.4% from $336.2m in the previous year, and accounted for 13% of the country's total exports. In parallel, imports of precious stones and metals to Armenia totaled $236.9m in 2017, up by 46.7% year-on-year, and represented 5.6% of the country's total imports.

Source: Customs Service of Armenia, Byblos Research

Steel output up 5% in first nine months of 2018

Global steel production reached 1.35 billion tons in the first nine months of 2018, constituting an increase of 5.4% from 1.28 billion tons in the same period of 2017. Chinese steel production totaled 699.4 million tons in the covered period and accounted for 51.9% of global output. India followed with 79.7 million tons (5.9%), then Japan with 78.6 million tons (5.8%) and the U.S. with 64.2 million tons (4.8%)

Source: World Steel Association, Byblos Research

Saudi Arabia to add 17GWs of power generation capacity by 2020

Electricity consumption in Saudi Arabia rose at an average annual rate of 6.6% between 2006 and 2016, driven by an increase in income levels and population, strong economic activity and subsidized electricity prices. The Kingdom's power generation capacity is currently estimated at 82 gigawatts (GWs), up from about 60GWs in 2010. Saudi Arabia's upcoming power projects are expected to provide about 17GWs in additional power capacity in the 2018-20 period. Overall, investments in the Saudi power sector are projected to reach $20bn in the next five years in order to meet rising electricity demand.

Source: APICORP Energy Research

Base Metals: Copper prices rise on higher Chinese import demand

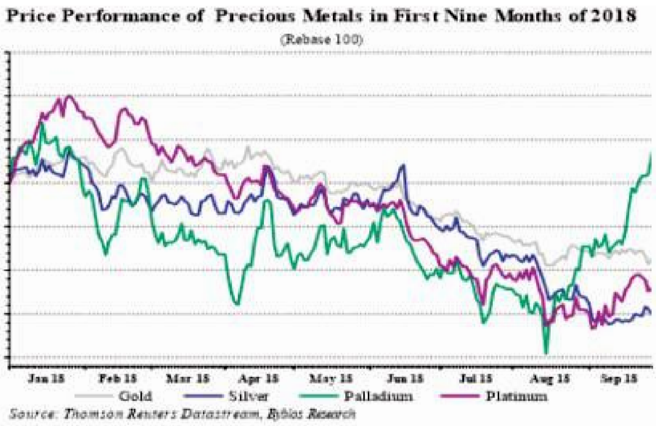
LME copper three-month future prices averaged $6,236 per metric ton so far in October 2018, constituting an increase of 2.8% from an average of $6,064 per ton in September 2018. The rise in the metal's price was mainly due to an expansion of 24% in China's imports of copper in September, as well as to the Chinese authorities' decision to take measures to boost growth and support firms facing liquidity problems. In parallel, the latest available figures show that global demand for refined copper was 13.8 million tons in the first seven months of 2018, up by 1.3% year-on-year, as Chinese demand grew by 4%, while demand in the rest of the world declined by 1%. On the supply side, global refined copper production was 13.7 million tons in the first seven months of 2018, up by 1.5% from 13.5 million tons in the same period of 2017, mainly driven by an increase of 5% in Chilean production, which was partly offset by a 22% decrease in output in India, as well as by declines in production in Australia, the Philippines, the U.S. and Poland. On a regional basis, refined output grew by 13% in Africa, by 4% in Latin America and by 1% in Asia, while it declined by 7% in Oceania and by 4% in North America, and was nearly unchanged in Europe.

Source: International Copper Study Group, Thomson Reuters

Precious Metals: Palladium prices reach highest level on record

Palladium prices increased by 10.3% month-on-month to an average of $1,012 per troy ounce in September 2018, and closed at a record-high of $1,141 an ounce on October 23, 2018, due to increasing concerns about supply shortages that would lead to a wide production deficit in the palladium market. Specifically, the recent rise in the metal's price has been triggered by concerns that Russia, the metal's main producer, could curb the supply of palladium in response to U.S. plans to withdraw from the Intermediate-Range Nuclear Forces Treaty. Palladium prices are expected to remain high and to average around $1,100 an ounce in the coming 12 months, supported by expectations of strong demand for palladium-based catalytic converters, and by prospects of additional stimulus in China, a major consumer of the metal, in response to the country's economic slowdown. Downside risks to prices include lower-than-anticipated growth in car sales, as the automotive sector constitutes the metal's major source of demand. In addition, the recent rally in palladium prices raises risks that the global automotive industry would substitute the use of palladium with platinum in catalytic converters.

Source: Citi, Thomson Reuters, 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- Stable	B3 Stable	B Stable	- -	B- Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B Stable	B3 Positive	B Positive	B+ Stable	B+ Positive	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
Ethiopia	B Stable	B1 Stable	B Stable	- -	B+ Stable	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
Ghana	B Stable	B3 Stable	B Stable	- -	BB- Stable	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
Ivory Coast	- -	Ba3 Stable	B+ Stable	- -	B+ Stable	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
Libya	- -	- -	B Stable	- -	B- Stable	-16.4	78.2	-	-	-	-	-10.6	-
Dem Rep Congo	CCC+ Stable	B3 Negative	- -	- -	CCC Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB- Negative	Ba1 Positive	BBB- Stable	- -	BBB Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B Stable	B2 Stable	B+ Negative	- -	BB- 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 Negative	B+ Negative	- -	BB- Negative	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
Burkina Faso	B Stable	- -	- -	- -	B+ Stable	-3.6*	33.3	23.1**	-	-	-	-7.2	-
Rwanda	B Stable	B2 Stable	B+ Stable	- -	B+ Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
Middle East													
Bahrain	B+ Stable	B2 Negative	BB- Stable	BB Stable	BB+ Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
Iran	- -	- -	- -	BB- Negative	BB- Positive	0.7	29.2	2.0	-	-	-	5.3	-
Iraq	B- Stable	Caa1 Stable	B- Stable	- -	CC+ Stable	-4.2	60.0	38.8	-	-	-	-4.4	-
Jordan	B+ Stable	B1 Stable	- -	BB- Negative	BB+ Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
Kuwait	AA Stable	Aa2 Stable	AA Stable	AA- Stable	AA- Stable	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
Lebanon	B- Stable	B3 Stable	B- Stable	B Stable	B- Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
Oman	BB Stable	Baa3 Negative	BBB- Negative	BBB Negative	BBB- Positive	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
Qatar	AA- Negative	Aa3 Stable	AA- Stable	AA- Negative	A+ Negative	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
Saudi Arabia	A- Stable	A1 Stable	A+ Stable	A+ Stable	AA- Stable	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
Syria	- -	- -	- -	- -	C Stable	-	-	-	-	-	-	-	-
UAE	- -	Aa2 Stable	- -	AA- Stable	AA- 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					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	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	2.00-2.25	26-Sep-18	Raised 25bps	08-Nov-18
Eurozone	Refi Rate	0.00	25-Oct-18	No change	13-Dec-18
UK	Bank Rate	0.75	13-Sep-18	Raised 25bps	01-Nov-18
Japan	O/N Call Rate	-0.10	19-Sep-18	No change	31-Oct-18
Australia	Cash Rate	1.50	02-Oct-18	No change	06-Nov-18
New Zealand	Cash Rate	1.75	26-Sep-18	No change	07-Nov-18
Switzerland	3 month Libor target	-1.25-(-0.25)	20-Sep-18	No change	13-Dec-18
Canada	Overnight rate	1.75	24-Oct-18	Raised 25bps	05-Dec-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	27-Sep-18	No change	20-Dec-18
South Korea	Base Rate	1.50	18-Oct-18	No change	30-Nov-18
Malaysia	O/N Policy Rate	3.25	05-Sep-18	No change	08-Nov-18
Thailand	1D Repo	1.50	19-Sep-18	No change	14-Nov-18
India	Reverse repo rate	6.50	05-Oct-18	No change	05-Dec-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	27-Sep-18	No change	15-Nov-18
Turkey	Repo Rate	24.0	25-Oct-18	No change	13-Dec-18
South Africa	Repo rate	6.50	20-Sep-18	No change	22-Nov-18
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	25-Sep-18	No change	20-Nov-18
Ghana	Prime Rate	17.00	24-Sep-18	No change	26-Nov-18
Angola	Base rate	16.50	21-Sep-18	No change	26-Nov-18
Mexico	Target Rate	7.75	04-Oct-18	No change	30-Oct-18
Brazil	Selic Rate	6.50	19-Sep-18	No change	31-Oct-18
Armenia	Refi Rate	6.00	25-Sep-18	No change	13-Nov-18
Romania	Policy Rate	2.50	03-Oct-18	No change	06-Nov-18
Bulgaria	Base Interest	0.00	01-Oct-18	No change	15-Nov-18
Kazakhstan	Repo Rate	9.25	15-Oct-18	Raised 25bps	03-Dec-18
Ukraine	Discount Rate	18.00	25-Oct-18	No change	13-Dec-18
Russia	Refi Rate	7.50	14-Sep-18	Raised 25bps	26-Oct-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
Al Reem Island – Sky Tower – Office 2206
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