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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Fixed income trading up 8% to $1,381bn in first quarter of 2019

Trading in emerging markets debt instruments reached $1,381bn in the first quarter of 2019, constituting increases of 8% from $1,280bn in the first quarter of 2018 and of 29% from $1,067bn in the fourth quarter of 2018. Turnover in local-currency instruments reached $808bn in the first quarter of 2019, up by 18% from $684bn in the first quarter of 2018 and by 17% from $690bn in the fourth quarter of 2018. In parallel, trading in Eurobonds stood at $573bn in the first quarter of 2019, down by 3% from the same quarter of 2018, but up by 53% from $375bn in the preceding quarter. The volume of traded sovereign Eurobonds reached $339bn and accounted for 59% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached $224bn, or 39% of the total. In addition, turnover in warrants and options stood at $689m, while loan assignments reached $410m in the first quarter of 2019. The most frequently-traded instruments in the covered quarter were Mexican fixed income assets with a turnover of $227bn, or 16% of the total, followed by securities from Brazil with $172bn (12%) and instruments from India with $141bn (10%). Other frequently-traded instruments consisted of fixed income securities from China at $93bn (7%) and from South Africa at $68bn (5%).

Source: EMTA

QATAR

Profits of listed firms down 4% to $2.9bn in first quarter of 2019

The net income of 46 companies listed on the Qatar Stock Exchange totaled QAR10.5bn, or $2.9bn in the first quarter of 2019, constituting a decrease of 4.1% from QAR10.9bn, or $3bn, in the first quarter of 2018. Banking & financial services providers generated net profits of $1.7bn in the first quarter of 2019 and accounted for 58.8% of the total earnings of publicly-listed firms. Industrial companies followed with $430.5m, or 14.9% of the total, then real estate firms with $232.4m (8.1%), transportation companies with $157.6m (5.5%), consumer goods & services corporates with $143.6m (5%), telecommunication firms with $127.5m (4.4%) and insurers with $94.4m (3.3%). Further, the net earnings of listed real estate firms grew by 18.1% year-on-year in the first quarter of 2019, followed by the profits of transportation companies (+8.2%), banking & financial services providers (+4%) and insurers (+0.4%). In contrast, the net income of listed industrial companies regressed by 34.3% in the covered quarter from the first quarter of 2018, followed by telecommunication firms (-7.8%) and consumer goods & services firms (-0.3%).

Source: KAMCO

MENA

Stock markets up 9% in first half of 2019

Arab stock markets improved by 9.1% and Gulf Cooperation Council equity markets increased by 9.4% in the first half of 2019, relative to expansions of 7.9% and 9.7%, respectively, in the same period of 2018. In comparison, global stocks grew by 14.6% and emerging markets equities increased by 10.5% in the first half of 2019. Activity on the Saudi Stock Exchange jumped by 12.7% in the covered period, the Bahrain Bourse surged by 10%, the Khartoum Stock Exchange increased by 9%, the Egyptian Exchange improved by 8.2%, the Dubai Financial Market expanded by 5.1%, the Qatar Stock Exchange grew by 1.5%, the Abu Dhabi Securities Exchange rose by 1.3%, and the Boursa Kuwait increased by 0.6%. In contrast, activity on the Muscat Securities Market regressed by 10.1% in the first half of 2019, the Beirut Stock Exchange declined by 9.8%, the Damascus Securities Exchange decreased by 3.8%, the Iraq Stock Exchange contracted by 2.7%, the Palestine Exchange retreated by 1.8%, the Tunis Bourse regressed by 1.7%, the Amman Stock Exchange declined by 1.5%, and the Casablanca Stock Exchange decreased by 0.7%.

Source: Local stock markets, Dow Jones Indices, Byblos Research

Cost of living increases in 14 Arab cities

Mercer's 2019 survey on the cost of living in 209 cities around the world showed that the cost of living in 14 out of 17 Arab cities increased in relative terms from the 2018 survey, while it regressed in Tunisia's capital Tunis and was unchanged from last year's survey in each of Casablanca and Doha. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment costs. It uses New York City as the base city for the index and compares all cities against it. Dubai has the highest cost of living in the Arab world and ranks in 21st place globally. Abu Dhabi followed in 33rd place, then Riyadh (35th), Beirut (53rd) and Manama (57th) as the five countries with the highest cost of living regionally in 2019. The Arab cities with the lowest cost of living are Rabat (160th), Cairo (166th), Algiers (184th), Nouakchott (192nd) and Tunis (209th). The survey attributed the increase in the cost of living in relative terms in the 14 Arab cities to the strengthening of the US dollar against other major currencies worldwide given that many currencies in the region are pegged to the US dollar, as well as to a steep increase in rental accommodation costs. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate employees. Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues. The rankings also demonstrate how currency fluctuations and changes in the prices of goods and services can affect the purchasing power of expatriates.

Source: Mercer, Byblos Research

POLITICAL RISK OVERVIEW - June 2019

ALGERIA

The constitutional council cancelled the presidential elections that were scheduled on July 4, 2019, without setting a new date, as they were "impossible to organize" in time. As a result, Algeria could enter a constitutional void when the mandate of current interim President Abdelkader Bensalah ends in July, risking more intense protests and repression. Hundreds of thousands continued to protest each Friday in major cities demanding a genuine regime change. Authorities responded with intimidation measures, such as arresting journalists and opposition members. Further, the government intensified its crackdown on corruption by arresting two former prime ministers and senior officials, among others.

DEM REP CONGO

President Felix Tshisekedi's alliance Cap pour le Changement (CACH) and former President Kabila's coalition, Front Commun pour le Congo (FCC), agreed that the CASH will hold 15 out of the country's 45 ministries, while the FCC will have the remaining 30 ministries. The FCC challenged the president's decision to appoint new heads to the national railway and mining companies, which triggered protests in the capital city of Kinshasa. The international community condemned the turbulent political scene. President Tshisekedi met with the president of the constitutional court, following the latter's decision to invalidate the election of 33 members of Parliament, of which 23 are from the opposition coalition Lamuka. The DRC submitted an official application to join the East African Community. Escalating violence continued to prevent authorities from delivering an effective response to the Ebola outbreak in the North Kivu and Ituri provinces.

IRAN

Tensions intensified between the U.S. and Iran. The U.S. blamed Iran for the attacks on two oil tankers in the Gulf of Oman and accused Iranian-backed Huthis in Yemen of downing a U.S. drone. Also, Iran hit a U.S. drone off the Iranian coast. U.S. President Donald Trump threatened to take military action against Iran, but he called off a planned operation. Further, Iran noted that its stockpiles of enriched uranium exceeded the Nuclear deal's limit. The U.S. issued additional sanctions on exporters of Iranian petrochemicals, on companies exporting Iranian oil to Syria, as well as on the South Wealth Resources Company, which is accused of smuggling weapons to several Iraqi militias.

IRAQ

Unidentified parties fired rockets at Iraqi military bases hosting U.S. personnel near Baghdad and in Mosul. The U.S. granted Iraq a 90-day sanctions waiver to continue importing Iranian electricity and gas. Further, Parliament approved the appointment of the interior, defense and justice ministers following pressure from Shiite cleric Moqtada al-Sadr. The process of forming a government has been dragging for eight months and is still ongoing. Protesters in Baghdad stormed Bahrain's embassy as the country hosted a U.S. conference on a peace plan in the Middle East. The Kurdistan Parliament elected Nechirvan Barzani as President of the Kurdistan region. Islamic State militants maintained low-level operations in Salah al-Din and Kirkuk provinces.

LIBYA

Fighting continued between the Libyan National Army (LNA) and forces loyal to the UN-backed Government of National Accord (GNA) in and around Tripoli, bringing the death toll to over 700 persons since early April 2019. The two sides rejected calls for a ceasefire and for political talks. The GNA claimed to have recaptured the strategic town of Gharyan from the LNA, while the latter carried an airstrike on Tripoli's Mitiga military air base, destroying a Turkish drone. Turkey, which has been allegedly supplying drones and weapons to the GNA, threatened to retaliate against any assaults by LNA forces on Turkish assets. Turkey also accused LNA forces of arresting six Turkish citizens, and warned that it would target the LNA if its citizens are not released immediately.

SUDAN

Security forces cracked down on protestors on June 3, which led to the death of at least 120 persons. On June 5, 2019, the African Union (AU) suspended Sudan from all union activities until the transition to civilian-led authority takes place. The Transitional Military Council (TMC) put off all negotiations with the opposition coalition Forces for Freedom and Change (FFC) and called for general elections within nine months, while the FCC announced a nationwide strike and civil disobedience until the TMC steps down. The AU and Ethiopian mediators initiated separate talks with the TMC and the civilian opposition. The FCC accepted the Ethiopian proposal for a joint interim authority, but the TMC rejected it. However, the TMC agreed to resume talks after the AU and Ethiopia submitted a new joint proposal that includes a civilian-majority governing council.

SYRIA

Pro-regime forces and Russia continued to shell opposition areas in northwestern Syria, while Turkey stepped up its support for the opposition, which managed to hold off the offensive. Turkish-backed rebels launched a counteroffensive against pro-regime forces near Hama. Russia and Turkey brokered a ceasefire in Idlib, but fighting continued, and pro-regime forces attacked a Turkish observation post. In the northeast of Syria, the Kurdish-led Syrian Democratic Forces (SDF) and Turkey agreed that the Kurdish People's Protection Units would withdraw from the future safe zone. In the east, the SDF accused the Islamic State as well as the regime of setting fire to crops around Manbij city and in Deir al-Zour and Raqqa provinces. Israeli warplanes attacked pro-regime forces in the Golan Heights as well as near Damascus and Homs.

TUNISIA

Tensions heightened between the ruling coalition and the opposition ahead of the November 2019 presidential elections, as the ruling majority voted on amendments to the 2014 electoral law to change the eligibility criteria for potential candidates. If signed into law, the amendments would bar three opposition candidates from running in the elections and would rule out citizens who distributed "aid" to the population in the year prior to the elections, or those who have a record of human rights violations. However, more than 40 members of Parliament signed a petition against the amendments, raising the likelihood of a delay in the elections. Islamic State militants claimed responsibility for two suicide bomb attacks in the capital Tunis. President Essebsi suffered a severe health crisis and was hospitalized in Tunis, which triggered concerns about a possible presidential vacuum.

TURKEY

The opposition Republican People's Party won the rerun of mayoral elections in Istanbul. Military operations continued against the Kurdistan Workers' Party (PKK) and the pro-Kurdish Peoples' Democratic Party in southeast and northern Turkey, as well as near the border with Iran. Also, Turkish warplanes hit PKK targets in Northern Iraq. President Erdoğan reiterated his commitment to purchase the S-400 missile defense systems from Russia. In response, the U.S. threatened to suspend the training of Turkish pilots on F-35 fighter jets and to stop the delivery of F-35 material. Tensions rose between Turkey and Cyprus as the former intends to drill for oil and gas near Northern Cyprus.

YEMEN

Houthi rebels increased their cross-border attacks on Saudi Arabia, launching missile and drone strikes on the Kingdom's Abha and Najran airports. Following accusations by the Hadi governmnet that UN Special Envoy Martin Griffiths has been siding with the Houthi rebels, Vice President Ali Al Ahmar met with Mr. Griffiths to revive the Stockholm agreement, which entails the implementation of a ceasefire in the city of Hodeidah.

Source: International Crisis Group, Newswires

OUTLOOK

KUWAIT

Growth outlook to remain stable but subject to downside risks

The National Bank of Kuwait (NBK) indicated that Kuwait's growth outlook is stable but is subject to several downside risks related to persistent challenges. It projected Kuwait's real GDP growth to increase modestly from 1.8% in 2018 to an average of 1.9% annually during the 2019-21 period, amid a slight improvement in hydrocarbon sector activity and non-oil growth. It expected real hydrocarbon sector activity to contract by 0.5% this year, due to lower output under the recent OPEC production cut agreement, but to accelerate by 2% in the next two years amid the government's plans to double its gas output. In parallel, it anticipated growth in the non-hydrocarbon sector to remain steady at 2.7% annually in the 2019-21 period, driven by a limited increase in confidence and public spending, as well as by improved consumer spending. But it expected non-oil growth to be constrained by fiscal pressures and slow pro-growth reforms. Further, it forecast the average inflation rate to remain low at 1.5% in the 2019-21 period, largely due to lower food and housing prices. It noted that downside risks to the outlook include lower global oil prices, regional geopolitical tensions, slow reform progress and widening fiscal deficits.

In parallel, NBK estimated the fiscal balance to have registered its first surplus in four years in the fiscal year that ended in March 2019, due to higher oil prices and weaker spending. However, it expected the fiscal balance to shift to an average deficit of 4% of GDP annually between FY2018/19 and FY2020/21 amid a rebound in spending. It noted that the government's financial reserves provide a large cushion and that the public debt level is low at around 13% of GDP. But it said that the underlying fiscal pressures are rising in the absence of reforms to broaden the tax base, and due to sustained spending pressures. It said that the assets of the General Reserve Fund, which are used to finance the deficit shortfalls, declined to $80bn at end-March 2019 and could be depleted in a few years in case of lower oil prices and in the absence of reforms to increase revenues. In parallel, it forecast the current account surplus to decline from 14.8% of GDP in 2018 to an average of 7% of GDP annually in the 2019-21 period.

Source: National Bank of Kuwait

PAKISTAN

Economy facing significant challenges

The International Monetary Fund indicated that Pakistan is facing significant economic challenges given its large fiscal and financial needs, as well as its weak and unbalanced growth. It considered that the government's misaligned economic policies, including its wide fiscal deficit, loose monetary policy and an overvalued exchange rate, have supported demand and short-term growth in recent years, but have eroded macroeconomic buffers, increased the external and public debt levels, as well as depleted foreign currency reserves. It added that structural weaknesses persist, including a weak tax administration, a challenging business environment and a large informal economy. As such, it considered that Pakistan's economic and financial stability could be at risk, and that growth prospects will be insufficient in the absence of urgent policy action. In this context, the IMF approved a 39-month $6bn Extended Fund Facility arrangement for Pakistan in order to support the authorities' economic reform program. It noted that the program aims to address policy and structural weaknesses, restore macroeconomic stability, accelerate international financial support, and promote sustainable growth. It projected real GDP growth to decelerate from an estimated 3.3% in the fiscal year that ended in June 2019 to 2.4% in FY2019/20. It forecast the average inflation rate at 13% in FY2019/20 compared to an estimated 7.3% in FY2018/19.

Further, the IMF expected the fiscal deficit to widen from 6.8% of GDP in FY2018/19 to 7.1% of GDP in FY2019/20, and for the public debt level to rise from 75% of GDP at end-June 2019 to 77% of GDP at end-June 2020. It pointed out that authorities should implement significant fiscal consolidation to reduce the elevated public debt level, starting with the adoption of an ambitious budget for FY2019/20. It considered that this will require a multi-year revenue mobilization strategy to broaden the tax base and raise tax revenues, as well as an effective public financial management. In parallel, it noted that a flexible and market-determined exchange rate will help restore competitiveness, rebuild foreign currency reserves and provide a buffer against external shocks. It projected the current account deficit at 2.6% of GDP in FY2019/20, while it forecast foreign currency reserves at $11.2bn or 2.2 months of import coverage at end-June 2020.

Source: International Monetary Fund

NIGERIA

Fiscal and current account balances to underperform official projections

Bank of America Merrill Lynch (BofAML) projected Nigeria's real GDP growth at 2.4% in 2019, below the authorities' forecast of 3% for this year, amid a slowdown in remittance inflows. It expected Nigeria's external position to remain resilient as long as global oil prices are above $60 per barrel (p/b) and despite the erosion of the country's external buffers. In this context, it forecast the current account deficit at 0.2% of GDP in 2019 compared to consensus expectations of a surplus of 2% of GDP. BofAML said that the expected current account deficit this year is due to its downward adjustment of oil prices to an average of $65 p/b in 2019 from $70 p/b previously, and to higher imports. It anticipated that a decline of $5 p/b in oil prices would widen the current account deficit by 0.4% of GDP, while it estimated that oil prices should be at least $70 p/b in order to shift the current account deficit into surplus. Further, it projected foreign currency reserves at $40.7bn at end-2019 amid sustained portfolio inflows. It pointed out that oil prices should remain below $50 p/b for a sustained period of time in order for the current account deficit to widen beyond 1% of GDP and for foreign currency reserves to decrease to below $24bn.

In parallel, BofAML forecast the fiscal deficit at 3% of GDP in 2019 compared to the government's budgeted deficit of 1.4% of GDP, as it anticipated oil and non-oil revenues to underperform by 40%, and in case authorities do not reduce public spending. It did not expect the lower budgeted spending to offset the revenue shortfalls, while it projected debt servicing costs to remain high. It anticipated that a decline of $5 p/b in oil prices would widen the fiscal deficit by 0.6% of GDP. Further, it expected lower revenues to lead to higher debt issuance and to the authorities' monetization of the deficit. It projected domestic and international debt issuance to be higher than targeted, as it did not expect bilateral and other infrastructure loans to be sufficient to cover the deficit due to the authorities' slow reform momentum.

Source: Bank of America Merrill Lynch

TURKEY

External adjustment facing domestic obstacles

Citi Research indicated that the Turkish economy is undergoing a major external adjustment, as it expected the current account deficit to narrow from 3.5% of GDP in 2018 to 0.8% of GDP this year. It noted that economic activity during the current adjustment phase is more favorable than in previous episodes, due to strong government consumption, a relatively resilient gross fixed capital formation, and better export performance. However, it considered that a sustained economic recovery is unlikely unless authorities address the vulnerabilities of corporate balance sheets. It expected a weakening in economic activity in the second quarter of the year and beyond, and anticipated real GDP to contract by 3% in 2019. Further, Citi indicated that the current adjustment is driven by import reduction, which is less durable than an export-led improvement in the trade balance. It added that the challenging external financing conditions and the ongoing private sector deleveraging will complicate the adjustment process. It noted that an expansionary fiscal stance, along with other stimulus measures, could limit the output cost of the adjustment. But it considered that a sustained accommodative policy stance is neither feasible nor desirable, due to balance-of-payments constraints and the need to reduce domestic economic imbalances. It added that the significant liabilities in foreign currency of the banking and corporate sectors, as well as the wide current account deficit could weaken the external adjustment process. Citi indicated that the country needs a tighter fiscal and monetary policy mix under a comprehensive reform program to help restore confidence and increase capital inflows.

Source: Citi Research

OMAN

Economic activity recovering gradually

The International Monetary Fund indicated that Oman's economic activity has been gradually recovering, with real GDP expanding by 2.2% in 2018 following a contraction of 0.9% in 2017. It noted that hydrocarbon sector output grew by 3.1% last year relative to a contraction of 2.5% in 2017, driven by higher hydrocarbon production, while non-hydrocarbon GDP growth accelerated from 0.5% in 2017 to 1.5% in 2018 amid higher confidence. It forecast non-hydrocarbon growth at 1.5% in 2019 and expected it to reach 4% over the medium term. However, it forecast hydrocarbon output to contract by 1.1% in 2019, resulting in overall real GDP growth of 0.3% this year. In parallel, the Fund anticipated the fiscal deficit to narrow from 9% of GDP in 2018 to 7.2% of GDP in 2019 due to lower spending. Still, it expected the public debt level to rise from 53.5% of GDP at end-2018 to 58.7% of GDP by end-2019. The IMF called for the swift introduction of the value-added tax, as well as for the implementation of reforms to tackle current spending rigidities, rationalize public investment and raise non-oil revenues. In parallel, it said that the current account deficit narrowed from 15.2% of GDP in 2017 to 4.7% of GDP in 2018 due to a recovery in export receipts and a decline in imports, and projected it at 5.9% of GDP in 2019. It noted that Oman's external buffers were broadly stable in 2018, as the rise in the Central Bank of Oman's foreign currency reserves from $16.1bn at end-2017 to $17.4bn at end-2018 offset the decline in the value of assets at the sovereign wealth fund.

Source: International Monetary Fund

RWANDA

Growth projected at 7.8% in 2019 on higher public and private investments

The International Monetary Fund indicated that Rwanda has made considerable progress in sustaining a high and inclusive economic growth rate. It considered that the country's new IMF-supported program aims to ease the fiscal policy stance while maintaining debt sustainability. It projected real GDP growth at 7.8% in 2019, mainly supported by public and private investments. It also noted that the inflation rate has been below the authorities' targeted band in recent months, which prompted the National Bank of Rwanda to lower its policy rate in May 2019. It projected the average inflation rate to increase from 1.4% in 2018 to 3.5% in 2019, and to remain within the target band, supported by monetary easing. Further, the Fund forecast the fiscal deficit to widen from 4.7% of GDP in 2018 to 6.1% of GDP in 2019 and 6.4% of GDP in 2020, mainly due to an increase in capital spending and lower grants. In turn, it projected the public debt level to gradually rise from 53.1% of GDP at end-2018 to 55.8% of GDP at the end of 2019 and to 57.3% of GDP at end-2020. In addition, the IMF anticipated Rwanda's current account deficit, excluding grants, to widen from 11.5% of GDP in 2018 to 13.1% of GDP in 2019, mainly due to the increase in imports related to the construction of a new airport, but to narrow thereafter. It also forecast foreign currency reserves to increase from $1.3bn at end-2018 to $1.4bn at the end of 2019 and to $1.6bn at end-2020, or 4.9 months of imports.

Source: International Monetary Fund

GHANA

Fiscal performance misses IMF target in first quarter of 2019

Barclays Capital estimated Ghana's overall fiscal deficit at 1.8% of GDP in the first quarter of 2019, relative to first quarter fiscal deficits of 0.9% of GDP and 1.3% of GDP in 2018 and 2017, under the country's program with the IMF. It noted that authorities targeted a deficit of 1.4% of GDP for the covered quarter under the 2019 budget. Also, it expected the performance of public finances to diverge from previous patterns realized under the IMF program, as the 2019 budget stipulates a fiscal expansion. It said that public revenues underperformed budget targets by 16%, while only 20% of expected grants materialized. It attributed the shortfall in revenues to persistent problems with tax collection, but noted that the government stepped up efforts to improve revenue mobilization. In parallel, it said that public expenditures in the covered quarter were higher than in the first quarter of 2018, but came 10% lower than the budgeted spending. It considered that capital expenditures, debt serving costs and the public-sector wage bill are the sources of spending pressure. It did not expect authorities to reduce capital expenditures given the government's development agenda. Also, it indicated that debt servicing costs increased in the covered quarter as the government financed itself mainly through domestic debt issuance with very short maturities. It added that the public-sector wage bill was elevated but that the rise in the wage bill came lower than budgeted. It said that authorities have a medium-term objective of keeping the wage bill under 35% of revenues, a convergence criterion in the West African Economic and Monetary Union.

Source: Barclays Capital

JORDAN

Agency takes rating actions on 10 banks

Capital Intelligence Ratings (CI) downgraded from 'BB-' to 'B+' the long-term foreign currency ratings (FCRs) of Arab Bank, Jordan Islamic Bank, Cairo Amman Bank, Jordan Ahli Bank, Jordan Kuwait Bank, Arab Jordan Investment Bank, Capital Bank of Jordan, Jordan Commercial Bank, Investbank, and Bank ABC Jordan. Also, it revised the outlook on the banks' ratings from 'negative' to 'stable'. It attributed the downgrade and the outlook revision to similar rating actions on the sovereign amid the authorities' limited progress in addressing fiscal and economic vulnerabilities in the past two years. In addition, it affirmed at 'B' the banks' short-term FCRs. In parallel, CI withdrew the financial strength rating due to a change in its methodology, and replaced it with the Bank Standalone Rating (BSR), which is based on the Core Financial Strength rating and the Operating Environment Risk Anchor. It assigned a BSR of 'b+' to all 10 banks, with a 'stable' outlook. It indicated that Arab Bank's BSR is supported by its ample liquidity, sound operating profitability, deep customer deposit base, geographically diversified balance sheet, and sound loan-loss reserve coverage for non-performing loans (NPLs). However, it noted that the bank's rating is constrained by its relatively high level of NPLs, moderately low capital adequacy ratio, high credit and geopolitical risks, as well as the difficult operating environment in the Middle East & North Africa region.

Source: Capital Intelligence Ratings

TURKEY

Ratings affirmed on seven large banks, outlook 'negative'

Fitch Ratings affirmed the long-term foreign-currency Issuer Default Ratings (IDR) of Turkiye Garanti Bankasi (Garanti BBVA) and Yapi ve Kredi Bankasi (YKB) at 'BB-', as well as the IDRs of Turkiye Is Bankasi (Isbank), Akbank, Ziraat Bankasi (Ziraat), Turkiye Halk Bankasi (Halk) and Turkiye Vakiflar Bankasi (Vakifbank) at 'B+'. It also maintained the 'negative' outlook on all the banks' long-term IDRs. Further, the agency downgraded Halk's Viability Rating (VR) from 'b+' to 'b' due to increased pressure on its performance and its modest capital buffers, while it affirmed at 'b+' the VRs of the remaining six banks. Fitch indicated that the seven banks' VRs are constrained by the concentration of their operations in the high-risk Turkish operating environment that deteriorated significantly in 2018. It noted that the volatile Turkish lira, which depreciated by 28% in 2018 and by 9% so far in 2019, along with elevated domestic interest rates and a weak growth outlook, have increased the pressure on the banks' margins, asset quality, capitalization and liquidity. Further, it expected the banks' profitability to weaken in 2019, driven by subdued economic growth, as well as by higher funding costs and impairment charges, which would reduce the banks' internal capital generation. In parallel, Fitch considered that refinancing risks at the seven banks are heightened by their significant short-term maturing foreign currency wholesale liabilities and by their exposure to investor sentiment. It added that the banks continue to have access to external funding in 2019, but at a higher cost and with lower debt rollover rates.

Source: Fitch Ratings

UAE

Banks' earnings up 6% in first quarter of 2019

Regional investment bank EFG Hermes indicated that the net profits of seven listed banks in the UAE totaled AED9.8bn, or $2.7bn in the first quarter of 2019, constituting an increase of 6.5% from AED9.2bn in the previous quarter and a rise of 5.8% from AED9.3bn in the first quarter of 2018. It attributed the rise in net profits mainly to a 17.2% growth in non-interest and a 3.3% rise in net interest income. It also indicated that the annual growth in aggregate earnings in the covered quarter was slower than in the first quarter of 2018, due to narrower interest margins, weaker fee income and higher provisioning costs. In parallel, it said that the banks' net loans grew by 6.4% year-on-year to AED1,247bn, or $339.7bn at end-March 2019, mainly due to higher credit extended to the public sector to finance large-scale infrastructure and real estate projects ahead of Expo 2020. It noted that the weak job market in the UAE, the consolidation of banks as well as the cost-cutting of many corporates, have weighed on the growth of personal loans. Also, it indicated that aggregate deposits at the banks grew by 13% annually to AED1,403bn, or $382bn, at end-March 2019. As such, it said that the banks' loans-to-deposits ratio regressed from 89.3% at end-March 2018 to 88.9% at end-March 2019. Further, it anticipated the unfavorable dynamics in the property market to weigh on the banks' asset quality, as the loan books of banks are significantly exposed to commercial real estate, construction, and mortgages.

Source: EFG Hermes

CÔTE d'IVOIRE

NPLs ratio at 8.5%, provisions at 75.8% at end-June 2018

The International Monetary Fund considered that Côte d'Ivoire's banking system is generally sound, and that authorities are stepping up efforts to reduce the remaining vulnerabilities. It said that, following the introduction of new prudential regulations in accordance with the Basel II and III principles, the aggregate risk-weighted capital adequacy ratio of banks stood at 8.9% at the end of June 2018 relative to 9% at end-2017, and was above the regulatory standard of 8.625% for the West African Economic and Monetary Union to which Côte d'Ivoire belongs. However, it noted that three small banks were undercapitalized as at end-2018. In addition, the Fund indicated that the non-performing loans (NPLs) ratio declined from 9.8% at end-2017 to 8.5% at end-June 2018, with general provisions covering 75.8% of NPLs relative to 63% at end-2017. It added that the banks' NPLs net of provisions were equivalent to 2.2% of total loans and to 21.4% of capital at end-June 2018, down from 3.8% of total loans and 43% of capital at end-2017. Also, it said that lending growth decelerated to 11.3% annually at end-2018, but picked up to 15.2% year-on-year at end-February 2019. In parallel, the IMF indicated that the banking sector's loans accounted for 56.6% of their total assets at end-June 2018 compared to 57.3% at end-2017, while the loans-to-deposits ratio stood at 85.3% at end-June 2018 relative to 89.5% at end-2017. Further, the Fund noted that the authorities are stepping up efforts to strengthen the financial sector, including by restructuring public banks so that the latter can comply with new prudential regulations.

Source: International Monetary Fund

OPEC extends output cut agreement until March 2020

ICE Brent crude oil front-month prices averaged $66.1 per barrel (p/b) in the first half 2019, constituting a decline of 7% from an average of $71.1 p/b in the same period of 2018. Further, oil prices averaged $63 p/b in June 2019, down by 10.3% from the preceding month. Oil prices continued to be volatile, declining from an average of $66 p/b in the week to June 28, to $63.8 p/b on July 3, 2019. Concerns about a slowdown in global oil demand, along with unsettled trade tensions between the U.S. and China, continue to put downward pressure on oil prices. In contrast, OPEC's decision to extend the production cut agreement until March 2020 has prevented further declines in oil prices. However, Goldman Sachs considered that the meeting between OPEC and non-OPEC countries reflected a potential lack of consensus among members on the target and purpose of the cuts. It added that they did not announce a clear exit path from the cuts nor a sustainable strategy to deal with shale oil production. It said that Saudi Arabia intends to reduce production in order to avoid excess supply from U.S. shale oil output. However, it considered that the Kingdom's strategy is unsustainable, as it will keep prices above marginal costs, which would drive further increases in shale and other non-OPEC oil production and, in turn, require additional production cuts from OPEC. It projected Brent oil prices to range between $55 p/b and $60 p/b by December 2019.

Source: Goldman Sachs, Refinitiv, Byblos Research

Iraq's oil exports down 5% in June 2019

Preliminary figures show that Iraq's crude oil exports totaled 105.6 million barrels in June 2019, constituting a decline of 4.6% from 110.7 million barrels in May 2019. They averaged 3.52 million barrels per day (b/d) in June 2019 compared to 3.57 million b/d in the previous month. Crude oil exports that originated from the country's central and southern fields reached 101.7 million barrels in June, followed by shipments from the Kirkuk fields with 3.2 million barrels and those from the northern Qayara oil field with 735,548 barrels. Oil export receipts stood at $6.4bn in June 2019, down by 12.7% from $7.3bn in May.

Source: Iraq Ministry of Oil, Byblos Research

Saudi Arabia's oil supply nearly unchanged in 2019

The International Monetary Fund expected Saudi Arabia's crude oil production to reach 10.33 million barrels per day (b/d) in 2019, nearly unchanged from 10.32 million b/d in 2018. In parallel, it projected the country's crude oil exports to average 7.28 million b/d in 2019, down by 1.2% from 7.37 million b/d last year. Saudi Arabia is currently OPEC's largest oil producer.

Source: International Monetary Fund, Byblos Research

Libya's oil & gas receipts at $2.3bn in May 2019

Libya's total oil & gas revenues reached $8.6bn in the first five months of 2019, constituting a decrease of 8.5% from $9.4bn in the same period last year. Oil & gas receipts amounted to $2.3bn in May 2019, up by 24% from $1.87bn in April 2018 and by 1.8% from $2.3bn in the same month of 2018. Crude oil revenues grew by 26% month-on-month to $2.2bn in May, while gas revenues fell by 6% to $130.1m. The rise in hydrocarbon receipts in May was mainly due to higher global oil prices, in addition to higher crude oil shipments despite ongoing security challenges.

Source: National Oil Corporation, Byblos Research

Base Metals: Nickel prices at $12,300 a ton in 2019

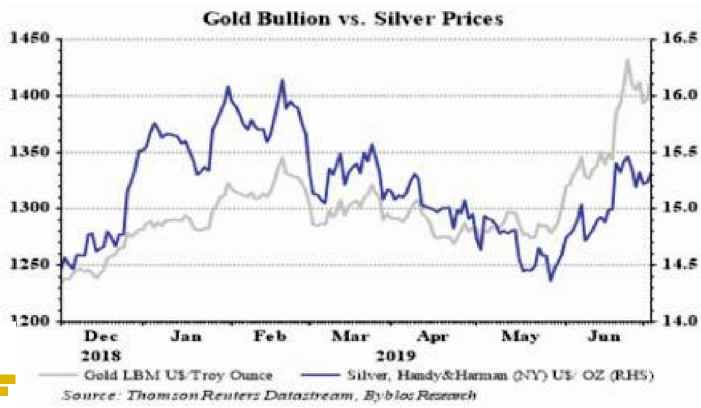
The LME cash price of nickel reached its highest level in 10 weeks to close at $12,658 per metric ton on June 27, 2019, constituting an increase of 19.4% from $10,605 per ton at end-2018. The recent jump in prices was temporary, as it was caused by a sudden tightness in nickel stocks, as well as by improving sentiment ahead of renewed trade talks between the U.S. and China. Indeed, prices normalized to $12,272 per ton on July 3, 2019. Overall, prices decreased by 2.2% in the second quarter of the year, following a surge of 21.6% in the first quarter, as the optimism about a U.S.-China trade agreement turned to pessimism in May following the re-escalation in tensions between the two countries. The downward trend in prices is expected to continue due to the rapid increase in the supply of nickel, combined with a slowing demand for the metal from stainless steel mills, which account for 70% of global nickel consumption. The slowdown in demand for nickel is largely due to expectations of lower stainless steel output from China amid overstocking earlier in 2019. In parallel, the supply of nickel pig iron, a lower grade of the metal, is increasing at a fast pace, notably in China and Indonesia. Wood Mackenzie projected nickel prices to average $12,300 per ton in 2019, down from an average of $13,110 per ton in 2018, amid expectations that the market will be almost balanced in 2019.

Source: Wood Mackenzie, Refinitiv, Thomson Reuters

Precious Metals: Gold prices outperforming silver prices this year

Gold prices closed at $1,412 per troy ounce at the end of June 2019 and grew by 10.2% from end-2018, while silver prices decreased by 1.2% from the end of last year to reach $15.32 an ounce at end-June 2019. As such, Citi Research indicated that the gold-to-silver price ratio significantly increased from around 82x at the end of 2018 to 92x at end-June 2019. The gold-to-silver ratio is the amount of silver needed to purchase one ounce of gold. It considered that several factors have been supporting the gold-to-silver ratio, including central bank purchases of gold, strong demand for gold Exchange Traded Funds, as well as lower inflation expectations. Further, Goldman Sachs expected gold prices to outperform silver prices in 2019. It projected gold prices to continue to significantly increase this year, and to average $1,450 per ounce in the coming three months and $1,475 an ounce in the next six months. It noted that the rise in gold prices would reflect the ongoing purchase of the metal by central banks worldwide, as well as limited U.S. interest rate hikes in coming months. In parallel, BMO Capital Markets anticipated silver prices to increase by 2% to an average of $15.54 per ounce in 2019.

Source: Citi Research, Goldman Sachs, BMO Capital Markets



COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-5.2	36.9*	2.2	-	-	-	-9.1	-
Angola	B-	B3	B	-	B-								
	Negative	Stable	Stable	-	Stable	2.4	88.1	45.7**	50.5	26.7	102.2	1.3	1
Egypt	B	B2	B+	B+	B+								
	Stable	Stable	Stable	Stable	Positive	-9.5	92.6	37.1	51.8	45	115.4	-2.4	3
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3	61.1	31.8**	27.2	3.6	146.2	-6.5	4.1
Ghana	B	B3	B	-	BB-								
	Stable	Stable	Stable	-	Stable	-7	59.6	27.9**	38.9	31.9	121.8	-3.2	6
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	-	-	B	-	B-								
	-	-	Stable	-	Stable	-7.4	-	-	-	-	-	2	-
Dem Rep	CCC+	Caa1	-	-	CCC								
Congo	Stable	Stable	-	-	Stable	-0.5	15.7	12.9**	4.4	3	104.1	-0.5	2.8
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-3.7	65.2*	33.2	30.6	7.4	93	-4.5	2.1
Nigeria	B	B2	B+	-	BB-								
	Stable	Stable	Stable	-	Stable	-4.5	28.4	8.8**	67.6	22.8	104.2	2.1	0.7
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-8.5	163.2	161.2	-	-	-	-11.5	-
Tunisia	-	B2	B+	-	BB-								
	-	Negative	Negative	-	Negative	-4.6	77	83.1	-	-	-	-11.2	-
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-4.7	43	23.8**	21	4.6	145.4	-7.5	2.8
Rwanda	B	B2	B+	-	B+								
	Positive	Stable	Stable	-	Stable	-2.6	40.7	40.1**	13.2	5.1	102.8	-7.8	2.9
Middle East													
Bahrain	B+	B2	BB-	BB	BB+								
	Stable	Stable	Stable	Stable	Stable	-8.4	100.2	189.9	201.7	22.3	327.6	-3.6	0.4
Iran	-	-	-	B	BB-								
	-	-	-	Stable	Negative	-4.1	30.0	2.0	-	-	-	-0.4	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-5.2	50.2	32.1	3.7	2.2	100.9	-6.7	1.0
Jordan	B+	B1	BB-	B+	A								
	Stable	Stable	Stable	Stable	Stable	-4.0	94.8	72.1	63.6	9.4	151.0	-8.2	4.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Stable	Stable	Stable	Stable	9.5	17.8	45.8	32.8	0.55	87.9	7.4	-5.5
Lebanon	B-	Caa1	B-	B	B-								
	Negative	Stable	Negative	Negative	Stable	-11.7	157.8	191.3	136.8	50.1	136.2	-28.2	2.8
Oman	BB	Ba1	BB+	BBB-	BBB								
	Negative	Negative	Stable	Stable	Stable	-9.9	61.3	99.6	44.9	4.5	140.3	-8.7	1.5
Qatar	AA-	Aa3	AA-	AA-	A+								
	Stable	Stable	Stable	Stable	Stable	6.1	52.7	106.7	60.9	3.4	173.9	4.6	-1.0
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-7.9	23.7	30.4	8.0	1.2	36.9	3.5	0.3
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-0.8	19.2	68.7	-	-	-	5.9	-0.8
Yemen	-	-	-	-	CC								
	-	-	-	-	Negative	-5.1	54.7	18.1	-	-	-	0.7	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating S&P	Moody's	Fitch	CI	IHS	General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-1.8	48.5	81.7	-	-	-	-6.2	-
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-4.8	50.5	-	40.0	2.1	64.2	0.4	0.8
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.6	69.8	-	39.5	19.4	90.7	-2.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	0.5	21.9	-	25.7	4.7	87.4	0.6	1.5
Pakistan	B-	B3	B-	-	CCC								
	Stable	Negative	Stable	-	Negative	-6.5	72.1	30.4	50.1	28.3	144.3	-6.1	0.87
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Positive	Stable	Stable	-	Stable	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-2.9	36.6	-	25.8	4.2	95.1	-4.6	2.4
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	2.8	14.0	-	17.2	2.6	57.4	7.0	-1.3
Turkey	B+	B1	BB	BB-	B+								
	Stable	Negative	Negative	Negative	Negative	-3.6	29.1	-	84.3	5.9	176.4	-3.6	1.0
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-2.3	63.9	-	59.3	9.3	129.2	-3.7	1.0

** Central Government*

*** External debt, official debt, debtor based*

Source: International Monetary Fund; IHS Markit; S&P Global Ratings; Byblos Research - The above figures are estimates for 2018

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.25-2.50	19-Jun-19	No change	30-Jul-19
Eurozone	Refi Rate	0.00	06-Jun-19	No change	25-Jul-19
UK	Bank Rate	0.75	20-Jun-19	No change	01-Aug-19
Japan	O/N Call Rate	-0.10	20-Jun-19	No change	30-Jul-19
Australia	Cash Rate	1.00	02-Jul-19	Cut 25bps	06-Aug-19
New Zealand	Cash Rate	1.50	26-Jun-19	No change	07-Aug-19
Switzerland	3 month Libor target	-1.25-(-0.25)	13-Jun-19	No change	19-Sep-19
Canada	Overnight rate	1.75	29-May-19	No change	10-Jul-19
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	2.75	20-Dec-18	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	20-Jun-19	No change	19-Sep-19
South Korea	Base Rate	1.75	31-May-19	No change	18-Jul-19
Malaysia	O/N Policy Rate	3.00	07-May-19	Cut 25bps	09-Jul-19
Thailand	1D Repo	1.75	26-Jun-19	No change	07-Aug-19
India	Reverse repo rate	5.75	06-Jun-19	Cut 25bps	07-Aug-19
UAE	Repo rate	2.75	19-Dec-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	3.00	19-Dec-18	Raised 25bps	N/A
Egypt	Overnight Deposit	15.75	23-May-19	No change	11-Jul-19
Turkey	Repo Rate	24.0	12-Jun-19	No change	25-Jul-19
South Africa	Repo rate	6.75	23-May-19	No change	18-Jul-19
Kenya	Central Bank Rate	9.00	27-Mar-19	No change	N/A
Nigeria	Monetary Policy Rate	13.50	21-May-19	No change	23-Jul-19
Ghana	Prime Rate	16.00	27-May-19	No change	22-Jul-19
Angola	Base rate	15.50	24-May-19	Cut 25bps	26-Jul-19
Mexico	Target Rate	8.25	16-May-19	No change	27-Jun-19
Brazil	Selic Rate	6.50	19-Jun-19	No change	31-Jul-19
Armenia	Refi Rate	5.75	11-Jun-19	No change	30-Jul-19
Romania	Policy Rate	2.50	04-Jul-19	No change	05-Aug-19
Bulgaria	Base Interest	0.00	01-Jul-19	No change	01-Aug-19
Kazakhstan	Repo Rate	9.00	03-Jun-19	No change	15-Jul-19
Ukraine	Discount Rate	17.50	06-Jun-19	No change	18-Jul-19
Russia	Refi Rate	7.50	14-Jun-19	Cut 25bps	26-Jul-19

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