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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Private equity funds raise $109bn in second quarter of 2019

Research provider Preqin indicated that 244 private equity (PE) funds raised a total of $108.7bn in capital commitments worldwide in the second quarter of 2019, compared to 399 PE funds that secured $103.2bn in the second quarter of 2018 and to 283 PE funds that raised $112.2bn in the first quarter of 2019. On a regional basis, 139 PE funds with a primary focus on North America secured $68.2bn in the second quarter of 2019, or 62.7% of total capital commitments, followed by 43 European-focused PE funds with $21.3bn (19.6%) and 45 Asian-focused funds with $15.4bn (14.2%). The survey also indicated that there were 3,951 PE funds seeking to raise an aggregate of $981bn in capital as at the start of the third quarter of 2019, compared to 3,749 PE funds that were seeking to raise an aggregate of $744bn in capital as of January 2019. It added that venture capital funds accounted for 60% of total PE funds in the market at the start of the third quarter of 2019, followed by growth funds (16%), buyout funds (11%), funds of funds (5%), and secondaries funds (1%). In parallel, buyout funds are seeking to raise 36% of the aggregate capital, followed by venture capital funds (21%), growth funds (17%), secondaries funds (7%) and funds of funds (3%).

Source: Preqin

GCC

Fixed income issuance down 8% to $67bn in first half of 2019

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $66.7bn in the first half of 2019, down by 7.5% from $72.1bn in the same period of 2018. Aggregate fixed income in the first half of the year consisted of $25.9bn in sovereign bonds, or 38.8% of the total, followed by corporate bonds at $23.7bn (35.5%), sovereign sukuk at $11.7bn (17.5%), and corporate sukuk at $5.4bn (8.1%). Aggregate bonds and sukuk issued by GCC sovereigns reached $37.6bn, or 56.4% of total fixed income issuance in the region in the first half of 2019, while bonds and sukuk issued by GCC corporates amounted to $29.1bn or 43.6% of the total. On a monthly basis, GCC sovereigns issued $12.8bn in bonds and sukuk in January, $2.6bn in February, $14.3bn in March, $4.1bn in April, $0.2bn in May, and $3.6bn in June 2019. In parallel, companies in the GCC issued $1.7bn in bonds and sukuk in January, $2.3bn in February, $4.3bn in March, $15.4bn in April, $4.2bn in May, and $1.2bn in June 2019. Sovereign issuance in June 2019 consisted of $3.6bn in sovereign bonds issued by Qatar, while corporate issuance included $571.7m in bonds issued by UAE-based companies, and $253.7m in bonds issued by Qatari-based corporates. There was no sukuk issuance in the covered month.

Source: KAMCO

MENA

Inter-Arab greenfield FDI inflows at $362bn between 2003 and 2018

Figures released by fDi Markets show that the amount of inter-Arab greenfield foreign direct investments (FDI) reached $361.7bn between 2003 and 2018. Egypt attracted $90.9bn worth of greenfield FDI from Arab countries, equivalent to 25.1% of total inter-Arab greenfield FDI. Saudi Arabia followed with $34.8bn (9.6%), then Oman with $29.9bn (8.3%), Algeria with $25bn (6.9%), Jordan with $24.2bn (6.7%), Libya with $22.9bn (6.3%), the UAE with $22.1bn (6.1%), Iraq with $21bn (5.8%), Morocco with $16.2bn (4.5%), Bahrain with $14.6bn (4%), and Qatar with $12.5bn (3.5%). Other Arab countries received $47.6bn in inter-Arab greenfield FDI between 2003 and 2018, or 13.2% of the total. In parallel, there were 2,895 inter-Arab greenfield FDI projects during the covered period. Saudi Arabia attracted 482 greenfield FDI projects from Arab countries, accounting for 16.6% of the total number of inter-Arab greenfield FDI projects. The UAE followed with 319 projects (11%), then Egypt with 301 (10.4%), Oman with 283 (9.8%), Bahrain with 253 (8.7%), Qatar with 241 (8.3%), Jordan with 162 (5.6%), Kuwait with 160 (5.5%), Morocco with 112 (3.9%), Iraq with 105 (3.6%), and Algeria with 101 (3.5%). Other Arab countries attracted 376 inter-Arab greenfield FDI projects, or 13% of the total between 2003 and 2018. The inter-Arab greenfield FDI figures cover cross-border projects that lead to the direct creation of jobs and capital investment. fDi Markets is a database that tracks cross-border greenfield investments across the world and is owned by the Financial Times Group.

Source: fDi Markets, Byblos Research

Insurance premiums up 3% to $39bn in 2018, penetration rate at 1.7% of GDP

Swiss Re's annual survey of the global insurance market indicated that insurance premiums generated in 12 Arab markets included in the survey totaled $38.8bn in 2018, constituting an increase of 2.6% from $37.8bn in 2017. The region's aggregate premiums accounted for 0.7% of global premiums and for 7.3% of premiums in emerging markets excluding China in 2018. Further, Arab markets generated $31.4bn in non-life premiums in 2018, up by 1.2% from $31.1bn in 2017. Non-life premiums produced in the Arab world accounted for 1.3% of global non-life premiums and for 12.2% of non-life premiums in emerging markets ex-China last year. Also, aggregate life premiums generated in Arab markets excluding Qatar stood at $7.4bn in 2018, up by 9.4% from $6.7bn in 2017. They accounted for 0.3% of global life premiums and for 2.7% of life premiums in emerging markets ex-China. In parallel, insurance penetration in Arab markets, or premiums relative to the size of the economy, stood at 1.7% of aggregate GDP in 2018 compared to penetration rates of 6.1% of GDP for global markets and of 2.5% of GDP for emerging markets excluding China. Further, insurance density in Arab markets, or premiums per capita, reached $148.75 in 2018 compared to $682 and $100, respectively, for global and emerging markets ex-China.

Source: Swiss Re, Byblos Research

OUTLOOK

GCC

Substantial escalation in geopolitical tensions to weigh on banks' funding profiles

In its assessment of the impact of a significant escalation in tensions between the U.S. and Iran on the funding profile of banks in the Gulf Cooperation Council (GCC) countries, S&P Global Ratings indicated that higher tensions would reduce investor confidence and, in turn, weigh on GCC banks and sovereigns. It noted that the funding profiles of most GCC banks are supported by strong customer bases, with about 52% of deposits coming from retail customers and government-related entities.

S&P assumed that, under a moderate stress scenario, 25% of total foreign interbank deposits and 40% of foreign customer deposits would be withdrawn from GCC banks, and that expatriates would transfer about 30% of their deposits abroad. Still, it expected that most GCC banks would be resilient, and that they would be able to manage the deposit outflows either by using their internal resources or by liquidating their external assets. However, under a more severe stress scenario, the agency assumed that 45% of interbank deposits and 70% of foreign customer deposits would exit GCC banks, while expatriates would transfer 70% of their deposits abroad. As a result, it anticipated that all GCC banking systems, except for Kuwait, would have a funding gap, which would require support from their respective governments or central banks. It estimated that Qatar would have the highest funding gap and would require about $59bn, equivalent to 30% of its GDP, in government support, followed by Bahrain with $4bn (10% of GDP), and Saudi Arabia $25bn (3% of GDP), while the remaining countries' funding gaps would be less than 1% of their respective GDP.

In addition, S&P indicated that GCC sovereigns, except for Bahrain and Oman, have a high ability and willingness to support their respective banking sectors, as they possess substantial liquid assets and foreign currency reserves. However, it noted that such support would drain their assets and put pressure on their ratings.
Source: S&P Global Ratings

ANGOLA

Growth to average 1.2% annually in 2019-20

Barclays Capital projected Angola's real GDP growth at 0.8% in 2019 following a contraction of 1.7% in 2018, reflecting a 2.2% expansion in the non-hydrocarbon sector and subdued activity in the hydrocarbon sector. It attributed the growth in the non-oil sector to the sustained expansion in the agriculture, diamonds, construction, trade, finance and services sectors, amid a steady improvement in private sector lending and higher foreign direct investments in the oil and non-oil sectors. Also, it expected real GDP growth to accelerate to 1.5% in 2020, as the government is stepping up efforts to boost oil production and attract additional investments to the hydrocarbon sector. Further, it noted that authorities are trying to reduce the inflation rate to single digits, but pointed out that the Banco Nacional de Angola (BNA) has slowed the pace of monetary policy tightening to support economic activity. It said that the average inflation rate regressed from 31.5% in 2017 to 19.7% in 2018, and projected it to remain high at 17.4% in 2019 amid rising food, housing, gas and electricity prices. It did not expect authorities to lift subsidies in the near term, given the slow pace in the deceleration of the inflation rate.

In parallel, Barclays Capital indicated that authorities have recently passed a supplementary budget for 2019 that targets a balanced fiscal position this year compared to a previous budgeted surplus of 1.5% of GDP, as they reduced their forecast for oil prices from an average of $68 per barrel (p/b) to $55 p/b in 2019. However, it projected the fiscal surplus to increase from 3% of GDP in 2018 to 4.2% of GDP this year, as it expected oil prices to average $71 p/b in 2019. As such, it projected the public debt level to decline from 84.3% of GDP last year to 76.4% of GDP in 2019. It noted that a drop in oil prices to below $55 p/b would raise the public debt level to about 100% of GDP by 2020. Further, it forecast the current account balance to shift from a deficit of 0.1% of GDP in 2019 to a surplus of 0.9% of GDP in 2020, in case of higher oil export receipts. It also expected foreign direct investments to further increase in the near term, which would result in higher foreign currency reserves. As such, it anticipated the BNA's net international reserves to rise from $10.8bn at end-2019 to $12bn at end-2020.
Source: Barclays Capital

UAE

Economic growth to steadily improve in 2020-21 period

The National Bank of Kuwait expected economic growth in the United Arab Emirates to steadily improve over the 2019-21 period, supported by stronger activity in the non-hydrocarbon sector. It projected real GDP growth to accelerate from 2.2% in 2018 to 2.4% in 2019 and to reach 3% in 2021, with non-hydrocarbon sector growth rising from 2.8% in 2018 to 3.6% by 2021. It forecast growth in the non-hydrocarbon sector to be driven by pro-investment reforms, including the new investment law that aims to increase investment inflows, as well as by improved activity in the transportation, construction and tourism sectors ahead of Expo 2020. In addition, it anticipated that lower global interest rates will support lending growth and, in turn, non-hydrocarbon sector activity. However, it noted that the ongoing decline in real estate prices could weigh on activity over the medium term. In parallel, it projected hydrocarbon sector growth to post an annual average of 1.2% between 2019 and 2021, due to production cuts under the OPEC agreement. It forecast the inflation rate to average -1% in 2019, and to reach an average of 1.5% in 2021.

Further, it expected the UAE's fiscal balance to shift from a deficit of 1.2% of GDP in 2018 to a surplus of 1.2% of GDP in 2021, supported by higher hydrocarbon and non-hydrocarbon revenues. It noted that the improvement in the fiscal balance reflects several fiscal and reform measures that authorities implemented in 2018, including the introduction of the value-added tax, cuts in subsidies and the increase in fees on certain services. It pointed out that the UAE is well-placed to withstand negative shocks, and that the emirates of Abu Dhabi and Dubai can sustain elevated public spending, particularly on infrastructure.

In parallel, it forecast the country's current account surplus to gradually improve from 7.6% of GDP in 2018 to 9.7% of GDP in 2021 amid higher export receipts. Still, it indicated that the outlook on the UAE economy could be affected by the U.S.-China trade tensions and by any resulting slowdown in global economic growth, as well as by geopolitical tensions and lower global oil prices.
Source: National Bank of Kuwait

SAUDI ARABIA

Non-oil sector activity picks up in first quarter

Samba Financial Group indicated that Saudi Arabia's real GDP growth decelerated from 3.6% in the fourth quarter of 2018 to 1.7% in the first quarter of 2019, mainly due to lower oil production. Also, it noted that non-hydrocarbon sector activity accelerated from 1.8% annually in the fourth quarter of 2018 to 2.1% in the covered quarter. It added that the construction sector posted its first year-on-year quarterly growth since 2015 due to an increase of 12% in capital spending. As such, it projected non-oil real GDP growth at 2.6%, and for overall growth to remain subdued at 0.8% in 2019. In parallel, it noted that the public-sector wage bill is rising, which it considered to be inconsistent with the Kingdom's Vision 2030 that aims to reduce the state's footprint on the economy. Still, it pointed out that the IMF encouraged authorities to slow the pace of structural reforms in order to provide the economy with the necessary adjustment period. As such, it projected the fiscal deficit to widen from 4.7% of GDP in 2018 to 6.6% of GDP in 2019. Further, it indicated that Saudi Arabia's external position significantly improved in the first quarter of the year, given the accumulation of $3bn in reserve assets compared to a drawdown of $10.6bn in the fourth quarter of 2018. It added that the current account shifted to a surplus of $11.5bn in the first quarter of 2019, amid a decline in workers' remittance outflows. It noted that the deficit in the financial account narrowed to $8bn in the covered quarter from $27bn in the previous quarter. Further, it said that foreign direct investments stood at $1.2bn in the first quarter of 2019 compared to a quarterly average of $800m in 2018, and expected growing investment opportunities in the Kingdom to support higher foreign capital inflows.

Source: Samba Financial Group

PAKISTAN

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Pakistan's long-term foreign-currency Issuer Default Rating at 'B-', with a 'stable' outlook. It indicated that the rating reflects the country's challenging external finances, low foreign currency reserve coverage, high public debt level, and weak governance. It expected that the recent policy measures, such as the country's agreement with the International Monetary Fund on an Extended Fund Facility, will help ease external financing pressures. But it pointed out that foreign currency reserves would take time to increase, and that the IMF-supported program could face significant implementation risks. It added that the significant narrowing of the current account deficit so far this year, along with the recent monetary tightening and the currency depreciation, improved the external financing outlook. It forecast the current account deficit to narrow from a peak of 6.3% of GDP in the fiscal year that ended in June 2018 to 3% of GDP in FY2019/20, mainly due to lower imports. Still, it anticipated external debt repayments to remain elevated over the medium term, and projected the sovereign's external debt servicing at between $8bn and $9bn annually in the coming years, mainly due to the recent surge in external borrowing. In parallel, it projected the general government deficit at 7.1% of GDP in FY2019/20, which, along with the currency depreciation, would increase the public debt level to 77.4% of GDP at end-June 2020.

Source: Fitch Ratings

TURKEY

Dismissal of CBRT governor reflects institutional weakness

Moody's Investors Service indicated that the dismissal of the governor of the Central Bank of the Republic of Turkey (CBRT) by President Recep Tayyip Erdoğan reflects the sustained erosion of the CBRT's independence in setting monetary policy, as well as the gradual weakening of the country's institutional strength in recent years. It expected that political pressure on the CBRT to cut interest rates would increase in coming months, given the recent decline in the inflation rate. It said that a potential shock to investor confidence has become significant, and that Turkey's foreign currency reserve buffers are insufficient to shield the country from the economic impact of an acute balance-of-payments crisis. It considered that developments in the country's monetary policy constitutes a key risk in coming months. It noted that the CBRT could reduce the one-week repo rate, given the supportive inflationary environment. But it said that the dismissal of the governor could result in deeper and faster rate cuts. Further, it indicated that the CBRT's ability to increase policy rates in the event of market stress is in question, and considered that risks related to monetary policy could further weigh on the exchange rate. It added that the government's willingness or ability to implement policies that will sustain external investor confidence in the economy and in the financial system remains uncertain.

Source: Moody's Investors Service

EGYPT

Fiscal deficit to narrow to 7.3% of GDP in FY2019/20

Regional investment bank EFG Hermes anticipated the annual inflation rate in Egypt to range between 11% and 12% in the coming few months, following the recent lifting of subsidies on fuel prices. It noted that the government has liberalized most fuel prices after it increased them by between 16% and 30% in July 2019 and completed the last major reform under the IMF program. It forecast the annual inflation rate to fall to single-digits between September and November 2019, but to reach about 12% in December 2019 due to unfavorable base effects. In parallel, it indicated that the government would meet its fiscal targets for the fiscal year that ends in June 2020 following the liberalization of fuel prices, including a fiscal deficit of 7.3% of GDP and a primary fiscal surplus of 2% of GDP. It expected fuel subsidies to be equivalent to 0.85% of GDP in FY2019/20, down from 3.3% of GDP when the IMF program started in November 2016. In parallel, Deutsche Bank estimated that real interest rates in Egypt increased to more than 6.25% following a single-digit inflation rate of 9.4% in June 2019, which provides the Central Bank of Egypt (CBE) with more room to cut policy rates. As such, it anticipated that the CBE will cut policy rates by 200 basis points during the remainder of the year relative to a previous forecast of a 100 basis points cut. It expected monetary policy easing to start in August 2019, but it considered that a premature reduction of policy rates could lead to an increase in risk premiums in case the inflation rate is higher than expected in July. In turn, this would raise fiscal pressure and disrupt capital flows into the local debt market.

Source: EFG Hermes, Deutsche Bank

OMAN

Banks' funding and liquidity conditions to remain tight in next 12 to 18 months

Moody's Investors Service expected the funding and liquidity positions of Omani banks to remain tight over the next 12 to 18 months, despite higher global oil prices, given that private-sector lending growth and domestic government borrowing are exceeding deposit growth. It noted that the increase in lending is driven by project financing, corporate expansion and strong demand for mortgages, while deposit growth, which is mainly supported by government deposits, is constrained by high fiscal breakeven oil prices. It indicated that government-related deposits accounted for 35% of the banking system's deposits at the end of March 2019, the highest share in the Gulf Cooperation Council region. But it said that the risk of a slow and progressive reduction in government deposits is increasing due to the government's large financing needs. As a result, the agency anticipated the banks to manage the tighter liquidity conditions by raising interest rates on loans and on local currency deposits, as well as by increasing foreign currency funding. Also, it expected banks to lend selectively to the retail segment due to the prevailing interest rate cap on retail lending. It anticipated that the reliance of Omani banks on capital market funding will remain modest, as the cost of borrowing on international capital markets is higher than the interest paid on domestic deposits. Further, it projected banks to maintain elevated funding costs in order to attract local deposits.

Source: Moody's Investors Service

NIGERIA

Central bank imposes minimum loans-to-deposits ratio of 60% on banks

Fitch Ratings and Moody's Investors Service considered the Central Bank of Nigeria's (CBN) decision to impose a minimum loans-to-deposits ratio requirement of 60% on banks to be credit negative for the sector, as it would force some banks to increase their lending to riskier borrowers. Fitch said that the new measure aims to stimulate lending and, accordingly, raised its projection for average lending growth from 1% to 10% in 2019. But it noted that banks could have difficulties in complying with the new requirement, especially if customer deposits continue to grow amid slow lending activity. It said that the sector's loans-to-deposits ratio was 57% at end-May 2019, which reflects the banks' concerns about asset quality risks given Nigeria's volatile operating environment. It noted that the banks continue to struggle with high problem loans, which has limited lending growth since 2016. Still, it expected banks to make an effort to meet the minimum requirement, given the severity of the penalties that would result from non-compliance. In parallel, Moody's indicated that the CBN is seeking to promote lending to small- and medium-sized enterprises (SMEs), as well as retail lending, mortgages and consumer loans by assigning a weight of 150% for these segments when calculating the loans-to-deposits ratio. It said that the new requirement would encourage banks to diversify their exposure to smaller borrowers, which would reduce concentration risks. But it noted that higher lending to SMEs and individuals would likely increase asset quality risks. It added that United Bank for Africa and Union Bank of Nigeria are the only rated banks that have loans-to-deposits ratios lower than 60%.

Source: Fitch Ratings, Moody's Investors Service

ARMENIA

Implementation of international accounting standards has limited impact on banks

Fitch Ratings indicated that the disclosures of 12 Armenian banks under international accounting standard IFRS 9 show that the banks' problem loans at the end of 2018 were broadly consistent with those reported previously under accounting standard IAS 39. It noted that the banks' average Stage 3 loans, or impaired loans, were at 7.1% of gross loans at end-2018 due to significant write-offs, and were generally in line with loans that were recognized as impaired under IAS 39 at end-2017. In parallel, it said that the banks' average Stage 2 loans, defined as loans that are not impaired but whose credit risk has increased significantly, were at 2.6% of aggregate loans at end-2018. It attributed the low level of Stage 2 loans to the banks' refinancing of existing loans and to their new classification of such loans, which potentially understates the underlying deterioration in asset quality. Further, it noted that there were significant loan migrations to the Stage 3 category from both Stage 1 and Stage 2 categories in 2018, which means that banks are under-recognizing risks when categorizing their loans. In parallel, Fitch indicated that the coverage ratio of the banks' average Stage 3 loans was moderate at 43% at end-2018, while Stage 2 loans were only modestly provisioned for. Further, it pointed out that the implementation of IFRS 9 had a limited impact on the banks' capital ratios, and that the banks were compliant with the regulatory total capital adequacy requirement at end-March 2019. It noted that the banks' asset quality is vulnerable to the highly cyclical operating environment and currency fluctuations, given that 73% of the corporate loans and 26% of retail loans are denominated in foreign currency.

Source: Fitch Ratings

GHANA

Additional measures required to address strategic AML/CFT deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), stated that Ghanaian authorities have taken several steps since October 2018 to improve the country's AML/CFT regime, including developing a national AML/CFT policy based on the risks identified in the National Risk Assessment (NRA), and conducting a risk assessment on non-profit organizations (NPOs) in Ghana. The FATF considered that the government should continue working on the implementation of its action plan in order to address its strategic deficiencies. As such, it called on authorities to implement the national AML/CFT policy. It also encouraged authorities to improve risk-based supervision by enhancing the capacity of the regulators and by increasing the awareness of the private sector, as well as to allow for the timely access to adequate, accurate and current basic and beneficial ownership information. Further, it called on authorities to ensure that the actions of the Financial Intelligence Unit (FIU) are in accordance with the risks identified in the NRA, and to secure adequate resource allocation to the FIU. In addition, it recommended that authorities should adequately and effectively investigate and prosecute terrorism financing, and apply a risk-based approach in monitoring NPOs.

Source: Financial Action Task Force

ENERGY / COMMODITIES

Oil prices to average $65 p/b in 2019

ICE Brent crude oil front-month prices have been trading at between $61 per barrel (p/b) and $66 p/b since the end of May 2019. The current price range balances concerns about a slowdown in global oil demand that have been exerting downward pressure on prices, with the extension of the OPEC production cut agreement and geopolitical risks in the Middle East that supported prices. However, oil prices surged by 4.4% day-to-day to $67 p/b on July 10, 2019, as recent figures showed a significant drop of 9.5 million barrels per day in U.S. oil inventories in the week to July 5, and as major U.S. oil firms halted their production ahead of an expected storm in the Gulf of Mexico. In parallel, Samba Financial Group indicated that several factors could support the oil price outlook. First, it noted that global oil demand could partially recover, as refineries in East Asia would increase their purchase of oil when their maintenance season ends. Second, it said that the U.S. Federal Reserve is considering cuts in interest rates, which would weaken the US dollar and support demand for dollar-denominated commodities such as oil. Third, it pointed out that several types of oil could benefit from the new maritime regulations IMO 2020, which would lead to a shift in demand from heavy fuels to cleaner fuels such as Brent, WTI and Saudi Arabia's Arab Light. Further, it considered that OPEC would extend the cut agreement throughout 2020 in case the outlook for global oil demand does not improve, in order to compensate for an expected increase of 2.3 million barrels per day in non-OPEC oil output in 2020. Overall, it forecast Brent oil prices to average $65 p/b in 2019 and $66 p/b in 2020.

Source: Samba Financial Group, Refinitiv, Byblos Research

OPEC's oil basket price down 10% in June 2019

The price of the reference basket of the Organization of Petroleum Exporting Countries averaged $62.92 per barrel (p/b) in June 2019, down by 10.1% from $69.97 p/b in the preceding month. Angola's Girassol posted a price of $65.69 p/b, followed by Nigeria's Bonny Light at $65.59 p/b, and Equatorial Guinea's Zafiro at $65.48 p/b. In parallel, all of the 14 prices included in the reference basket posted monthly decreases that ranged between $5.17 p/b and $7.49 p/b in June 2019.

Source: OPEC, Byblos Research

Steel demand up 3% between 2012 and 2018

Global "apparent" steel demand, which is defined as production minus exports plus imports, reached 1.7 billion tons in 2018 and grew by a CAGR of 2.86% between 2012 and 2018. Asia accounted for 68.2% of global steel demand in 2018, followed by the European Union (10%), North America (8.3%), Middle East & Africa (5.1%), the Commonwealth of Independent States (3.3%), Central & South America (2.5%), other European countries (2.2%), and Oceania (0.4%).

Source: World Steel Association, Byblos Research

OPEC oil output nearly unchanged in June 2019

Oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 29.83 million barrels per day (b/d) in June 2019, nearly unchanged from an average of 29.9 million b/d in the preceding month. Saudi Arabia produced 9.81 million b/d in June 2019, or 33% of OPEC's total oil output, followed by Iraq with 4.72 million b/d (15.8%), the UAE with 3.08 million b/d (10.3%), Kuwait with 2.69 million b/d (9%) and Iran with 2.23 million b/d (7.5%).

Source: OPEC, Byblos Research

Base Metals: Copper prices reach three week-low amid reduced demand

LME copper cash prices reached their lowest level in three weeks, closing at $5,809 per metric ton on July 9, 2019, and constituting a decrease of 1% from $5,982 per ton at the end of June 2019. The recent decline in prices was mainly due to concerns about the drop in demand for copper from China despite the government's stimulus, and to a stronger U.S. dollar. In addition, prices regressed as copper inventories surged by 24% to a one-year high of 298,300 tons at the end of last week. However, prices are anticipated to recover following the ease in trade tensions between the U.S. and China, and expectations of a cut in U.S. interest rates later this month. In parallel, copper prices increased by 0.6% in the first half of 2019, as the surge of 9% in the metal's price in the first quarter of the year was broadly offset by a decline of 7.8% in the second quarter due to the re-escalation of the trade dispute between the world's two largest economies. Further, Citi Research indicated that, under a scenario whereby trade tensions escalate or the dispute remains unresolved, copper prices would average $5,600 per ton in the third quarter of 2019 and $5,500 per ton in the fourth quarter. However, it projected prices to average $7,500 per ton in each of the third and fourth quarters in case the U.S. and China reach a trade agreement.

Source: Citi Research, Refinitiv, Byblos Research

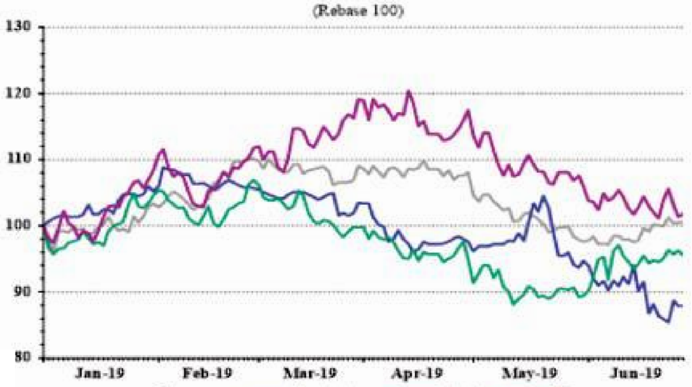
Precious Metals: Gold prices to reach $1,450 per ounce by the end of 2019

Gold prices averaged $1,305.9 per troy ounce in the first half of 2019, which constitutes an increase of 7% from $1,221 an ounce in the second half of 2018. Prices also averaged $1,360 an ounce in June 2019 and rose by 6% from $1,284 an ounce in May 2019. The rise in gold prices is attributed to tensions between the U.S. and Iran, as well as to the reduced likelihood of monetary tightening in the U.S. In fact, U.S.-China trade tensions and expectations of a slowdown in U.S. economic growth have increased the likelihood of cuts in U.S. interest rates. Gold prices are expected to continue increasing, and to reach $1,450 per ounce by the end of 2019 and $1,500 an ounce by the end of 2020. The sustained rise in gold prices would be supported by ongoing geopolitical uncertainties, an easing of monetary policy by the U.S. Federal Reserve and the European Central Bank, as well as by the increasing purchases of the metal by central banks worldwide. However, downside risks to gold prices include weaker physical demand for gold in Asia, especially in China and India.

Source: UBS, Refinitiv, Byblos Research

Price Performance of Base Metals in First Half of 2019

(Rebase 100)



Source: Refinitiv Datastream, Byblos Research

COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch (LT Foreign currency rating)	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					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 (%)
	S&P	Moody's	Fitch	CI	IHS								
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	10-Jul-19	No change	04-Sep-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	09-Jul-19	No change	12-Sep-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	11-Jul-19	No change	22-Aug-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	27-Jun-19	No change	15-Aug-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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