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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Nearly 54% of rated sovereigns have investment-grade rating

S&P Global Ratings indicated that 53.7% of the sovereigns that it rates had an investment grade rating as of July 19, 2019, relative to a low of 51.5% in June 2017, and a recent high of 55.8% at the end of 2014. However, it said that sovereigns rated in the 'B' category or lower reached a record high of 34.3% of total rated sovereigns relative to 24.6% at the end of 2008. It noted that the global average sovereign credit rating declined from 'BBB' at the end of June 2009 to 'BBB-' currently, while the GDP weighted average sovereign rating declined from 'AA-' to 'A+' over the past 10 years. In parallel, S&P noted that the number of sovereigns carrying a 'positive' outlook on their ratings declined from 16 sovereigns at end-2018 to 14 as of July 19, 2019, while the number of sovereigns with a 'negative' outlook increased from 10 to 14 sovereigns. It expected domestic politics and geopolitical tensions to be the main factors behind changes in sovereign ratings over the next six months. In parallel, S&P upgraded eight sovereigns and downgraded three economies between December 2018 and July 19, 2019. It upgraded the ratings of three sovereigns in Asia Pacific, three in Central and Eastern Europe & the Commonwealth of Independent States, as well as the ratings of one sovereign in each of the Americas and the Eurozone. In addition, it downgraded the ratings of two sovereigns in the Americas and one sovereign in Asia Pacific. Further, it revised the outlook on the ratings of six sovereigns to 'negative' so far in 2019, while it changed the outlook on three sovereigns to 'positive'.
Source: S&P Global Ratings

MENA

Arab economies trail global trends in terms of innovation

The 2019 Global Innovation Index rated the UAE as the most innovative Arab country and the 36th most innovative globally. Kuwait followed in 60th place, then Qatar (65th), Saudi Arabia (68th), Tunisia (70th), Morocco (74th), Bahrain (78th), Oman (80th), Jordan (86th), Lebanon (88th), Egypt (92nd), Algeria (113th) and Yemen (129th). The index is a composite of 80 variables that are grouped into two Sub-Indices. The Innovation Input Sub-Index consists of an economy's institutions, human capital & research, infrastructure, and market and business sophistication; while the Innovation Output Sub-Index reflects the results of innovative activities within the economy such as technology, knowledge and creativity. The index rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The average score of the 13 Arab countries included in the survey reached 30.3 points and was below the global average of 36.3 points. The average score of Gulf Cooperation Council (GCC) countries was 34.3 points, while the average of non-GCC Arab countries stood at 26.9 points. Also, the Arab region's average score was only higher than the score of Latin America & the Caribbean (30 points), South Asia (27.7 points), and Sub-Saharan Africa (24.5 points). The UAE ranked first regionally on the Innovation Input Sub-Index, while Kuwait came first on the Innovation Output Sub-Index.
Source: INSEAD, Cornell University, WIPO, Byblos Research

Stock markets up 10.5% in first seven months of 2019

Arab stock markets improved by 10.5% and Gulf Cooperation Council equity markets increased by 10.6% in the first seven months of 2019, relative to expansions of 10.4% and 11.9%, respectively, in the same period of 2018. In comparison, global stocks grew by 14.5% and emerging markets equities increased by 9.2% in the first seven months of 2019. Activity on the Bahrain Bourse jumped by 15.7% in the covered period, the Dubai Financial Market surged by 14.6%, the Saudi Stock Exchange increased by 11.6%, the Khartoum Stock Exchange improved by 8.7%, the Abu Dhabi Securities Exchange expanded by 8.2%, the Boursa Kuwait grew by 3%, the Egyptian Exchange rose by 2.7%, the Casablanca Stock Exchange increased by 2.2% and the Qatar Stock Exchange grew by 2%. In contrast, activity on the Beirut Stock Exchange regressed by 13.8% in the first seven months of 2019, the Muscat Securities Market declined by 13.1%, the Iraq Stock Exchange decreased by 5.9%, the Damascus Securities Exchange contracted by 2.6%, the Amman Stock Exchange retreated by 1.9%, and the Tunis Bourse regressed by 1.5%, while activity on the Palestine Exchange was unchanged in the covered period.
Source: Local stock markets, Dow Jones Indices, Byblos Research

Export credit and investment insurance contracts with Dhaman at $1.4bn in 2018

Figures issued by the Arab Investment & Export Credit Guarantee Corporation (Dhaman) indicated that Arab countries signed $1.36bn worth of insurance contracts issued by Dhaman in 2018. Specifically, Arab countries signed a total of $1.2bn in export credit insurance contracts and $165m in investment insurance contracts issued by Dhaman. The UAE signed the highest amount of export and investment insurance contracts with Dhaman at $351.1m, or 25.8% of the region's contracts, followed by Kuwait with $280m (20.6%), Saudi Arabia with $206.5m (15.2%), Tunisia with $173.9m (12.8%), Algeria with $152.5m (11.2%), Bahrain with $115.6m (8.5%), Oman with $37.4m (2.7%), Jordan with $27.2m (2%), Lebanon with $13.6m (1%), and Egypt with $4.1m (0.3%). In parallel, Dhaman issued $303m worth of insurance contracts for exports to Lebanon in 2018, the highest amount regionally, and representing 22.4% of total insurance contracts for exports and investments to Arab countries. Insurance contracts to Tunisia followed with $188.7m (14%), then Egypt with $180.6m (13.4%), Algeria with $164.6m (12.2%), Iraq with $110.3m (8.2%), Oman with $73.4m (5.4%), Saudi Arabia with $71.2m (5.3%) and the UAE with $59.3m (4.4%). The amount of insurance contracts for exports and investments to the remaining eight Arab countries totaled $202.4m and represented 15% of total contracts to Arab countries. In addition, Egypt had $116.3m in ongoing insurance contracts issued by Dhaman as at end-2018, and represented 22.7% of the region's total. Lebanon followed with $107.3m (21%), then Tunisia with $67.4m (13.1%), and Iraq with $57.1m (11.1%), while the other 10 Arab countries had ongoing insurance contracts worth $165.5m, or 32.2% of the total.
Source: Arab Investment & Export Credit Guarantee Corporation

OUTLOOK

MENA

Impact of potential closure of Strait of Hormuz varies across Gulf sovereigns

S&P Global Ratings assessed two hypothetical stress scenarios of the potential closure of the Strait of Hormuz and military conflict, and analyzed their impact on investor confidence and sovereign ratings of Arab Gulf countries over the 2019-22 period. The first scenario consists of a blockage of the Strait for a few days with a low possibility of direct military conflict, while the second scenario stipulates the closure of the Strait of Hormuz for an extended period of time with a protracted military engagement. The agency expected the first scenario to have a limited impact on the Gulf sovereign's fiscal and external ratios during the 2019-22 period. It anticipated that Gulf economies will be able to provide essential goods and services to their population in the event of a short-term closure of the Strait, assuming airspace and land routes remain open. However, it noted that a direct military engagement could weigh on investor confidence and would have negative consequences on financial flows to and from Gulf economies which, in turn, could affect their sovereign ratings.

In parallel, S&P anticipated that the second scenario will have a more pronounced impact on Gulf sovereigns over the 2019-22 period. Under this scenario, it expected the average net government debt ratio to increase by 3.1% of GDP in Iraq and by 1.3% of GDP in Bahrain during the 2019-22 period, given their weak fiscal positions. It anticipated that net foreign assets would decline by 1% of GDP in Qatar and by 0.7% of GDP in Saudi Arabia, and to be nearly unchanged in Abu Dhabi and Kuwait. Further, S&P noted that the impact of a prolonged closure of the Strait would be most pronounced on the external positions of Kuwait, Qatar and Iraq. It forecast the average current account surplus during the 2019-22 period to narrow by 1.3% of GDP in Kuwait, by 0.9% of GDP in Qatar, by 0.8% of GDP in Iraq, by 0.3% of GDP in Saudi Arabia and by 0.2% of GDP in Abu Dhabi. Also, it projected the average current account deficit to widen by 0.5% of GDP in Bahrain during the covered period. It anticipated Qatar's external position to be more vulnerable than other countries in the region due to its elevated gross external financing needs and relatively high share of hydrocarbon-related exports.
Source: S&P Global Ratings

IRAQ

Economic growth to accelerate to 5.3% in 2020

The International Monetary Fund projected Iraq's real GDP to grow by 4.6% in 2019 following a contraction of 0.6% in 2018, mainly due to a rebound in non-hydrocarbon sector activity. It expected non-hydrocarbon GDP growth to accelerate from 0.8% in 2018 to 5.4% this year, supported mainly by an expansionary fiscal policy. Also, it anticipated growth in the oil sector to increase in the 2019-20 period in case the ongoing OPEC agreement to cut oil production is not renewed and if Iraq's export capacity improves. It forecast overall growth to accelerate to 5.3% in 2020, but to decelerate and stabilize at about 2.3% over the medium term. It also projected growth in the non-oil sector to slow down to 5% in 2020 and to average 3.2% in the medium term in case of a decline in capital spending.

In parallel, the Fund indicated that the expansionary budget for 2019, which includes allocations to the Kurdistan Regional Government and a significant increase of public-sector wages, will reverse the recent improvement in public finances. It projected the fiscal balance to shift from a surplus of 7.9% of GDP in 2018 to a deficit of 4.1% of GDP in 2019 and of 3.5% of GDP in 2020, while it anticipated the public debt level to rise from 49.3% of GDP at end-2018 to 51.4% of GDP at end-2019 and to reach 50.5% of GDP by end-2020. In addition, it forecast the current account balance to shift from a surplus of 6.9% of GDP in 2018 to a deficit of 5.2% of GDP in 2019, as it expected oil prices to decrease this year. But it forecast the deficit to narrow to 4.2% of GDP in 2020 in case of an increase in oil export volumes. In this context, it anticipated Iraq's foreign currency reserves to decline from $64.7bn at end-2018 to $57.2bn at end-2019 and $53.5bn at end-2020, amid rising financing needs.

Further, the IMF indicated that a decline in global oil prices constitutes the major risk to the outlook, as it would reduce budgetary revenues and export receipts and, in turn, lead to a higher public debt level and to lower foreign currency reserves. It added that geopolitical tensions, as well as the potential for social unrest as a result of weak public services and the lack of progress in combatting corruption, pose further risks to the growth outlook.
Source: International Monetary Fund

SAUDI ARABIA

Fiscal deficit to gradually narrow and to balance by 2023

BNP Paribas projected Saudi Arabia's real GDP growth to decelerate from 2.2% in 2018 to 1.1% of GDP in 2019, due to a slowdown in hydrocarbon sector activity. It forecast real hydrocarbon GDP to contract by 1.7% in 2019, as a result of the production cuts under the extended OPEC agreement. But it expected growth in the non-hydrocarbon sector to accelerate from 2.1% in 2018 to 3% in 2019, supported by the government's ongoing fiscal stimulus. It anticipated that increases in the wages of the public sector, which employs 45% of working Saudi nationals, would support private consumption. Further, it expected the inflation rate to average -1.7% in 2019 compared to an average of 2.5% in 2018, due in part to the continued decline in housing prices. But it projected the average inflation rate at 1.8% in 2020, driven by more favorable growth prospects and domestic consumption.

In parallel, it projected Saudi Arabia's fiscal deficit to widen from 4.6% of GDP in 2018 to 8.1% of GDP in 2019 and 8.2% of GDP by 2020, due to lower hydrocarbon receipts and higher public spending. It anticipated the deficit to narrow to 7.5% of GDP in 2021, in case of slower spending growth and higher non-oil fiscal receipts, while it expected a balanced fiscal position by 2023. It added that Saudi Arabia has become a regular issuer of Eurobonds, and expected the Kingdom to continue to benefit from favorable financing conditions given the prevailing investor appetite. It forecast the public debt level to increase from 19% of GDP at the end of 2018 to 28% of GDP at the end of 2019 and to 35% of GDP by end-2020. It considered that the public debt level would be offset by the government's substantial foreign assets, which it estimated to be equivalent to 75% of GDP. In parallel, it projected the current account surplus to decline from 9.3% of GDP in 2018 to 3.5% of GDP in each of 2019 and 2020, and for the Kingdom's external debt level to rise from 25% of GDP at the end of 2018 to 34% of GDP by the end of 2020.
Source: BNP Paribas

GCC

Agencies affirm ratings of Oman and Qatar

Fitch Ratings affirmed at 'BB+' Oman's long-term foreign and local currency Issuer Default Ratings, with a 'stable' outlook. It indicated that the ratings are supported by Oman's high GDP per capita and strong external asset position, but are constrained by its undiversified economy, wide fiscal and current account deficits, and elevated debt ratios. It considered that the country's commitment to the OPEC agreement constrains oil production and, therefore, growth. It also projected the fiscal deficit to widen to 10% of GDP in 2019, as it expected lower global oil prices to offset modest spending cuts and higher non-hydrocarbon receipts. But it forecast the deficit to narrow to below 7% of GDP by 2021, in case of the introduction of the value-added tax in the second half of 2020, a rise in oil production, and the materialization of revenues from the new Khazzan gas field. It also projected the public debt level to rise from 51% of GDP at end-2018 to 61% of GDP at end-2021. In parallel, Capital Intelligence Ratings affirmed at 'AA-' Qatar's long-term foreign and local currency ratings, with a 'stable' outlook. It indicated that the ratings balance the substantial assets of the Qatar Investment Authority and the country's very large hydrocarbon reserves, against its limited economic diversification and significant geopolitical risks. It expected the public debt level to temporarily rise from 48.4% of GDP at end-2018 to 51.4% of GDP at end-2019 as a result of the $12bn bond issuance in March 2019, but to decline to 39.7% of GDP by end-2021 amid large fiscal surpluses in coming years.

Source: Fitch Ratings, Capital Intelligence Ratings

EGYPT

IMF calls for stepping up structural reforms

The International Monetary Fund indicated that Egypt has successfully completed the three-year arrangement under the Extended Fund Facility, and realized the main objectives of the reform program. It considered that deep reforms achieved macroeconomic stabilization, supported a recovery in growth and employment, and put the public debt level on a downward path. It noted that monetary policy is anchored by the authorities' target of reducing the inflation rate to single digits in the medium term, but it stressed that the Central Bank of Egypt should remain cautious despite a well-contained core inflation rate. It added that the flexibility of the exchange rate is necessary to improve the country's resilience to shocks and preserve competitiveness. In parallel, the Fund indicated that the government met the targeted primary fiscal surplus of 2% of GDP in the fiscal year that ended in June 2019, and encouraged authorities to maintain the primary surplus at its current level over the medium term in order to reduce the public debt level. Also, it said that the lifting of most fuel subsidies will help shield public finances from the volatility in global oil prices, and considered that increasing tax revenues is necessary to allow for higher spending on healthcare, education, and social protection. Further, the IMF indicated that Egypt's outlook provides authorities with an opportunity to step up their structural reform efforts in order to support private-sector development and job creation. It called on authorities to implement the recently-launched measures to promote competition, as well as to reform public procurement, the allocation of industrial land, and state-owned enterprises.

Source: International Monetary Fund

ANGOLA

Real GDP to contract by 0.7% in 2019

IHS Markit expected Angola's real GDP to contract by 0.7% in 2019 due to fiscal tightening under the IMF program, low oil production and constrained external liquidity conditions. It indicated that real GDP contracted by 0.4% year-on-year in the first quarter of 2019, compared to a growth rate of 2.8% in the fourth quarter of 2018, due to a slowdown in the hydrocarbon and retail trade sectors, which together generate 46% of economic activity. It pointed out that hydrocarbon production regressed by 6.9%, while retail trade activity contracted by 3.2% year-on-year in the first quarter of 2019. But it noted that activity in the construction sector expanded by 11.3%, while electricity and water output grew by 10% in the covered quarter. Further, IHS indicated that the current account surplus narrowed from $1.2bn in the fourth quarter of 2018 to $34m in the first quarter of 2019, due to a significant decline in the trade surplus from $5.8bn to $4bn in the covered period. It noted that oil export receipts, which account for 95% of total export earnings, decreased by 11.3% in the first quarter of 2019. It added that Angola's foreign currency reserves declined by $353m in the covered quarter amid the fall in oil and diamond export receipts, and high external debt servicing. However, it considered that the IMF's disbursements under the ongoing Extended Fund Facility, along with budget support from the World Bank and the African Development Bank, as well as an anticipated Eurobond issuance in the second half of 2019, will be sufficient to finance Angola's public- and private-sector debt servicing commitments in 2019, and to stabilize foreign reserves.

Source: IHS Markit

IRAQ

Sovereign ratings affirmed, outlook 'stable'

Moody's Investors Service affirmed Iraq's long-term issuer and senior unsecured ratings at 'Caa1', with a 'stable' outlook. It indicated that the ratings reflect the country's very high level of political risk and weak institutions and governance, which limit the government's capacity to implement reforms and respond effectively to domestic and external shocks, and weigh on the already very weak competitiveness of the Iraqi economy. It noted that authorities did not enact or reversed in the past two years most of the structural and fiscal reforms that Iraq committed to under the IMF-supported program that expired in July 2019. Also, the agency pointed out that Iraq's banking system, which includes very weak state-owned banks, poses risks to financial stability and to government liquidity, given the sovereign's reliance on local banks to roll over domestic debt. It added that the imminent recapitalization of state-owned banks poses a significant contingent liability risk for the government. Further, Moody's expected Iraq's fiscal and external positions to remain vulnerable to lower global oil prices, due to the reversals of fiscal consolidation efforts during 2018-19 that will increase Iraq's fiscal and external breakeven oil prices. It forecast that a decline of $10 per barrel in the price of oil would lead to a 4% to 5% of GDP deterioration in Iraq's fiscal and external positions. It added that a persistent fall of the same magnitude would raise the public debt level by about 30% of GDP over five years, and would erode Iraq's foreign currency reserves and significantly increase pressures on government liquidity.

Source: Moody's Investors Service

BANKING

WORLD

Top 1000 banks' Tier One capital-to-assets ratio at 6.75% at end-2018

The Banker magazine's annual survey of the Top 1000 banks in the world by Tier One capital indicated that their aggregate Tier One capital stood at $8,292bn at the end of 2018, constituting an increase of 0.7% from $8,235bn at end-2017. It added that the assets of the banks included in the survey reached $122,801bn at end-2018, down by 0.7% from $123,653bn at end-2017. As such, the Tier One capital-to-assets ratio of the world's Top 1000 banks increased from 6.66% at end-2017 to 6.75% at end-2018, compared to 5.14% at end-2009. The survey noted that the lowest Tier One capital among the Top 1000 banks surged from $247m at end-2008 to $492m at end-2018, due to stricter requirements for capital buffers. It indicated that there were 389 banks from Asia Pacific that accounted for 39% of the world's Top 1000 banks, followed by 219 banks from Western Europe (22%), 183 banks from North America (18.3%), 81 banks from the Middle East (8.1%), 56 banks from Latin America & the Caribbean (5.6%), 39 banks from Central & Eastern Europe (3.9%), and 33 banks from Africa (3.3%). The Industrial and Commercial Bank of China (ICBC) ranked first with a Tier One capital at $337,539bn at end-2018, followed by the China Construction Bank ($287,461bn), the Agricultural Bank of China ($242,895bn), the Bank of China ($229,970bn), and JPMorgan Chase ($209,093bn). Also, the pre-tax profits-to-assets ratio of the world's Top 1000 banks reached 0.92% in 2018 relative to 0.9% in 2017.

Source: The Banker, Byblos Research

NIGERIA

Weak asset quality constrains banks' ratings

Fitch Ratings considered that the ratings of Nigerian banks are supported by the banks' strong capital adequacy, good profitability and improving liquidity, but are constrained by weak asset quality. First, it noted that the banking sector's average Fitch core capital ratio was 19% at end-2018, supported by solid retained earnings. It stressed that banks need to remain well-capitalized, given their high credit concentrations, large holdings of sovereign debt and low coverage of problem loans. Second, the agency indicated that the banks' profitability metrics have been supported by their healthy core earnings, low funding costs and lower loan impairment charges. Still, it said that declining yields on government securities and subdued lending growth weighed on the banks' net interest margins in 2018. It added that the sector's lending increased by 1% last year, as banks were more risk averse amid the challenging operating environment. Third, Fitch pointed out that liquidity in the Nigerian banking system has improved in recent years. It noted that the sector's loans-to-deposits ratio stood at 57% at the end of May 2019, and expected banks to meet the Central Bank of Nigeria's minimum loans-to-deposits ratio requirement of 60% by the end of September 2019. It added that the increase in foreign currency deposits has significantly reduced the banks' refinancing risks. Fourth, it said that the sector's average impaired loans-to-gross loans ratio increased from 8.2% at end-2017 to 9.4% at end-2018, and did not expect the banks' asset quality to improve this year. It added that the banks' high exposure to the oil & gas sector and their highly dollarized loan books are key risks to asset quality.

Source: Fitch Ratings

TURKEY

Banks' refinancing risks persist

Fitch Ratings indicated that Turkish banks have avoided a sharp contraction in their foreign-currency liquidity since the end of June 2018, due to sustained access to external funding and higher foreign-currency deposit inflows. However, it said that the banks' refinancing risks remain high, given their sizable short-term foreign debt and their exposure to investor sentiment amid exchange rate volatility, political tensions and policy uncertainty. The agency noted that Turkish banks have continued to access external funding but at a higher cost and with lower rollover rates, which contributed to the decline in the banks' external debt by $18bn since end-June 2018 to $161bn at end-March 2019. It expected the banks' external debt to continue to gradually decline in the second half of 2019 due to lower rollover rates, sufficient foreign-currency liquidity and subdued growth in foreign-currency assets. In parallel, Fitch indicated that foreign-currency deposits increased by $23bn, or 12%, from the end of 2018 to $212bn at end-March 2019, while the share of foreign-currency deposits rose from 49% of total deposits at end-2018 to 54% of deposits at end-March, which heightens foreign-currency liquidity risks for the banks in case of deposit outflows. The agency expected banks to comfortably cover their short-term maturing foreign-currency external liabilities in the absence of significant deposit outflows. It said that the banks have access to about $89bn in foreign currency liquidity in case of a market shutdown, which exceeds their external debt service requirement that it estimates at between $40bn and $45bn over the next 12 months.

Source: Fitch Ratings

PAKISTAN

FATF urges authorities to address 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 Pakistani authorities took several steps since June 2018 to improve the country's AML/CFT regime, including the recent development of its terrorism financing (TF) risk assessment. However, FATF noted that authorities still have not demonstrated a proper understanding of Pakistan's transnational TF risks, and that the government should continue implementing the country's action plan in order to address its strategic deficiencies. As such, it called on authorities to adequately demonstrate their proper understanding of the TF risks posed by terrorist groups and to conduct supervision on a risk-sensitive basis. Also, it encouraged officials to prove that they are applying remedial actions and sanctions in case of AML/CFT violations, and that they are identifying illegal money transfers and taking enforcement action against them. It added that authorities should improve inter-agency coordination in combating TF risks, show that law enforcement agencies are identifying and investigating TF activity, and demonstrate enforcement against violations of TF sanctions. It also called on authorities to ensure that TF prosecutions result in effective, proportionate and dissuasive sanctions, as well as to enhance the capacity and support for prosecutors and the judiciary. The FATF strongly urged authorities to complete the remaining items in the action plan as they are set to expire by October 2019, at which time the FATF will decide how to proceed in case of insufficient progress.

Source: Financial Action Task Force

ENERGY / COMMODITIES

Oil prices to average $66 p/b in 2019

ICE Brent crude oil front-month prices averaged $65.8 per barrel (p/b) in the first seven months of 2019, constituting a decline of 8.2% from an average of $71.7 p/b in the same period of 2018. The decline in oil prices was mainly due to U.S.-China trade tensions, projections for slower economic growth globally this year, and higher U.S. oil output. Prices declined so far this year despite the ongoing OPEC agreement to cut oil production and the expiry of the U.S. waivers for the main importers of Iranian oil in April 2019. In parallel, oil prices increased by 1.9% month-on-month to an average of $64.2 p/b in July, mainly due to the extension of OPEC and non-OPEC oil production cuts at the beginning of July, as well as to geopolitical tensions in the Middle East that fueled supply-side concerns, and declines in U.S. oil inventories. In parallel, Jadwa Investment projected Brent oil prices to average $66 p/b in 2019 relative to $71.6 p/b in 2018. It indicated that upside risks to the oil price outlook include heightened geopolitical tensions, while the risk of an escalation in the trade dispute between the U.S. and China is a key downside risk. Further, Jadwa anticipated an extension of the OPEC production cut agreement until the end of 2020, due to weaker prospects for global oil demand growth in the medium term. It added that OPEC members may need to further reduce their output in order to compensate for the projected growth in production of non-OPEC countries.
Source: Jadwa Investment, Refinitiv, Byblos Research

Global steel output up 5% in first half of 2019

Global steel production reached 925.1 million tons in the first half of 2019, constituting an increase of 5% from 882 million tons in the same period of 2018. Steel production in China totaled 492.2 million tons in the first half of 2019 and accounted for 53.2% of global output. India followed with 57 million tons (6.2%), then Japan with 51.1 million tons (5.5%), and the U.S. with 44.3 million tons (4.8%).
Source: World Steel Association, Byblos Research

Middle East's jewelry demand up 1.4% to 91 tons in first half of 2019

Demand for jewelry in the Middle East totaled 90.6 tons in the first half of 2019, constituting an increase of 1.4% from 89.4 tons in the same period last year, and accounting for 8.5% of global jewelry demand. Consumption of gold jewelry in the UAE and Saudi Arabia reached 19.9 tons each, representing 22% of the region's demand each. Iran followed with 15.9 tons (17.5%), then Egypt with 12.5 tons (13.8%), and Kuwait with 7.6 tons (8.4%).
Source: World Gold Council, Byblos Research

Middle East accounts for 38% of world's proven natural gas reserves

BP estimated the Middle East region's proven natural gas reserves at 2,666.7 trillion cubic feet (tcf) at the end of 2018, equivalent to 38.4% of the world's natural gas reserves. Iran held the region's largest proven natural gas reserves with 1,127.7 tcf, or 42.3% of the Middle East's total reserves, at end-2018. Qatar followed with 872.1 tcf (32.7%), then the UAE with 209.7 tcf (7.9%), Saudi Arabia with 208.1 tcf (7.8%), Iraq with 125.6 tcf (4.7%), Kuwait with 59.9 tcf (2.2%) and Oman with 23.5 tcf (0.9%).
Source: BP, Byblos Research

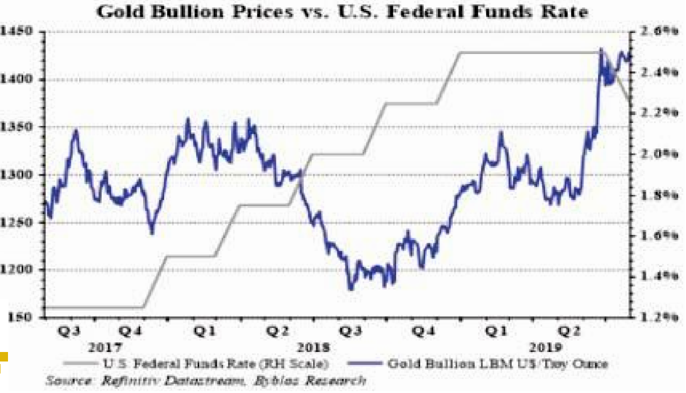
Base Metals: Nickel prices to average $12,780 per ton in 2019

The LME cash price of nickel average $13,546 per metric ton in July 2019, constituting an increase of 13.4% from $11,944 per ton in June 2019. The increase in prices is mainly due to higher demand for the metal from speculators and from industrial firms, amid concerns about potential future supply shortages in the nickel market. The rise in prices in July reversed the monthly declines in the price of the metal since April 2019. In parallel, prices averaged $12,495 per metric ton in the first seven months of 2019, constituting a decrease of 9.8% from an average of $13,850 per ton in the same period of 2018. Citi Research projected nickel prices to average $12,780 per ton in 2019 relative to $13,140 per ton in 2018. It attributed its forecast of a decline in prices mainly to higher refined output by nickel producers and to the increase in supply of nickel pig iron, which is a lower grade of the metal. It said that the moderate slowdown in Chinese stainless steel production, which accounts for the majority of global nickel demand, is also weighing on prices. Further, it projected global nickel demand to increase by 5.2% to 2.44 million tons in 2019 due to higher demand for nickel pig iron. Also, it forecast refined production of nickel to expand by 7.8% to 2.41 million tons in 2019. As such, it expected the production deficit in the nickel market to narrow from 76,000 tons in 2018 to 23,000 tons in 2019.
Source: Citi Research, Refinitiv, Newswires

Precious Metals: Silver prices to increase to $18 per ounce by the end of 2019

Silver prices averaged $15.3 per troy ounce in the first seven months of 2019, down by 7.3% from an average of $16.5 an ounce in the same period of 2018, due to subdued investor demand for silver exchange-traded funds (ETFs) at the beginning of 2019 amid a strengthening US dollar, as well as to lower-than-anticipated Chinese demand for the metal. However, prices have been on the rise in recent months, increasing from an average of $14.7 per troy ounce in May 2019 to $15 an ounce in June and $15.7 an ounce in July 2019. Prices also traded near their highest levels in over a year at $16.4 an ounce at the end of July 2019, and grew by 7.1% from $15.3 an ounce at end-June 2019. The recent increase in prices is mainly due to a recovery in investment in silver ETFs amid expectations of easing U.S. monetary policy. Further, prices are expected to reach $18 per ounce at the end of 2019 and $19 an ounce by the end of 2020, driven by the continued easing of monetary policy by the U.S. Federal Reserve and the European Central Bank. Upside risks to silver prices could arise from a de-escalation in the U.S.-China trade conflict, as well as stronger-than-anticipated photovoltaic demand for the metal.
Source: Commerzbank, Refinitiv, Byblos Research

Gold Bullion Prices vs. U.S. Federal Funds Rate



Source: Refinitiv Datastream, Byblos Research

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 (%)
	LT Foreign currency rating												
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-5.2	36.9*	2.2	-	-	-	-9.1	-
Angola	B-	B3	B	-	B-								
	Negative	Stable	Negative	-	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	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 (%)
	LT Foreign currency rating												
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	2.00-2.25	31-Jul-19	Cut 25bps	18-Sep-19
Eurozone	Refi Rate	0.00	25-Jul-19	No change	12-Sep-19
UK	Bank Rate	0.75	01-Aug-19	No change	19-Sep-19
Japan	O/N Call Rate	-0.10	30-Jul-19	No change	19-Sep-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	1.50	18-Jul-19	Cut 25bps	30-Aug-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	2.50	31-Jul-19	Cut 25bps	N/A
Saudi Arabia	Repo rate	2.75	31-Jul-18	Cut 25bps	N/A
Egypt	Overnight Deposit	15.75	11-Jul-19	No change	22-Aug-19
Turkey	Repo Rate	24.0	25-Jul-19	No change	12-Sep-19
South Africa	Repo rate	6.50	18-Jul-19	Cut 25bps	19-Sep-19
Kenya	Central Bank Rate	9.00	27-Mar-19	No change	N/A
Nigeria	Monetary Policy Rate	13.50	23-Jul-19	No change	24-Sep-19
Ghana	Prime Rate	16.00	22-Jul-19	No change	20-Sep-19
Angola	Base rate	15.50	26-Jul-19	No change	27-Sep-19
Mexico	Target Rate	8.25	27-Jun-19	No change	15-Aug-19
Brazil	Selic Rate	6.00	31-Jul-19	Cut 50bps	18-Sep-19
Armenia	Refi Rate	5.75	30-Jul-19	No change	10-Sep-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	15-Jul-19	No change	09-Sep-19
Ukraine	Discount Rate	17.00	18-Jul-19	Cut 50bps	05-Sep-19
Russia	Refi Rate	7.25	26-Jul-19	Cut 25bps	6-Sep-19

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