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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global bond issuance at $4 trillion in first seven months of 2019

S&P Global Ratings indicated that the global issuance of corporate bonds, U.S. public finance bonds, other international public finance bonds and structured finance products totaled $3.96 trillion in the first seven months of 2019, constituting an increase of 8.9% from $3.64 trillion in the same period of 2018. It noted that the shift towards monetary easing in the U.S. and the Eurozone have helped lower the borrowing costs for lenders, which supported global bond issuance in the covered period. It said that the increase in global bond issues reflects a 63% growth in the issuance of other international public finance bonds, as well as a 9% year-on-year rise in non-financial corporate issuance. S&P pointed out that non-financial institutions issued a total of $1.34 trillion, or 34.6% of total bond issuance, in the first seven months of 2019. Financial institutions followed with $1.28 trillion (32.4%), then investor-placed structured finance with $645.3bn (16.3%), non-U.S. international public finance with $467.7bn (11.8%), and U.S. public finance with $196.6bn (5%). It forecast global bond issuance at $6.08 trillion in 2019, up by 4% from $5.85 trillion in 2018, due to a projected rise of 33% in non-U.S. international public finance bonds and a 2.5% increase in non-financial corporate bonds.

Source: S&P Global Ratings

SAUDI ARABIA

Profits of listed firms down 25% to $11.3bn in first half of 2019

The cumulative net income of 160 companies listed on the Saudi Stock Exchange, or Tadawul, totaled SAR42.5bn, or $11.3bn, in the first half of 2019, constituting a decrease of 25% from SAR56.7bn, or $15.1bn in the first half of 2018. Listed banks generated net profits of $6.4bn and accounted for 56.5% of total net earnings in the covered period. Basic materials companies followed with $2.3bn (20.3%), then telecommunications firms with $1.6bn (14%), the food & beverage industry with $329.6m (2.9%), retailers with $210m (1.9%), insurers with $154.5m (1.4%), real estate management & development companies with $101m and healthcare firms with $96.8m (0.9% each), diversified financial services providers with $95.8m (0.8%), consumer services firms with $80m and transportation companies with $79.1m (0.7% each), and energy firms with $6.2m (0.5%). In parallel, utilities firms posted net losses of $186.8m and capital goods companies posted losses of $103m in the covered period. Further, the net earnings of media firms increased by 79.6% year-on-year in the first half of 2019, followed by telecommunications companies (+25%), retailers (+15.5%), and transportation firms (+9.6%). In contrast, the profits of energy firms fell by 74% year-on-year in the first half of 2019, followed by basic materials companies (-56.7%), healthcare providers (-25.8%), real estate management & development firms (-24.6%), consumer services companies (-23.3%), commercial & professional services providers (-15.9%), food & staples retailers (-13.5%), diversified financial services providers (-10.9%), the food & beverages industry (-2.9%), banks (-2.6%), and insurers (-1.3%).

Source: KAMCO

MENA

M&A deals at $108bn in first eight months of 2019

Figures issued by Bureau Van Dijk and Zephyr show that there were 354 merger & acquisition (M&A) deals targeting companies in the Middle East & North Africa (MENA) region for a total of $107.7bn in the first eight months of 2019. In comparison, there were 385 M&A deals worth $22.2bn in the first eight months of 2018. The figures show a decline of 8% in the number of deals, but a rise of 4.8 times in their amount year-on-year in the covered period. The increase in the value of deals was mainly driven by Saudi Aramco's acquisition of 70% of Saudi Basic Industries Corporation for $69.1bn in March 2019. The amount of M&A transactions in Saudi Arabia reached $71.8bn in the first eight months of the year, accounting for 66.7% of the region's aggregate deal value. The UAE followed with M&A deals of $18.1bn (16.8%), then Bahrain with $7.1bn (6.6%), Iran with $5.5bn (5.1%), Kuwait with $3.1bn (2.9%), Egypt with $1.2bn (1.1%), Qatar with $381m (0.4%), Oman with $249m, Jordan with $171m and Morocco with $162m (0.2% each), Tunisia with $10m and Lebanon with $5m. Egypt had 93 M&A deals in the covered period, followed by the UAE with 65 transactions, Saudi Arabia with 50 deals, Kuwait with 46 transactions, Jordan with 36 deals, Oman with 26 transactions, Bahrain with 12 deals, Iran with 10 transactions, Morocco with eight deals, Qatar and Lebanon with three transactions each, while the remaining deals were in two other MENA countries.

Source: Zephyr, Bureau Van Dijk, Byblos Research

Stock markets up 5% in first eight months of 2019

Arab stock markets improved by 5.3% and Gulf Cooperation Council equity markets increased by 3.8% in the first eight months of 2019, relative to expansions of 8.3% and 9%, respectively, in the same period of 2018. In comparison, global stocks grew by 11.7% and emerging markets equities increased by 4% in the first eight months of 2019. Activity on the Bahrain Bourse jumped by 14.6% in the covered period, the Egyptian Exchange surged by 13.8%, the Dubai Financial Market and the Khartoum Stock Exchange increased by 9% each, the Abu Dhabi Securities Exchange expanded by 5.1%, the Casablanca Stock Exchange improved by 3.1%, the Saudi Stock Exchange rose by 2.5%, and the Boursa Kuwait grew by 1.1%. In contrast, activity on the Beirut Stock Exchange regressed by 23.6% in the first eight months of 2019, the Muscat Securities Market declined by 7.4%, the Iraq Stock Exchange decreased by 7.2%, the Amman Stock Exchange contracted by 4.6%, the Damascus Securities Exchange retreated by 2.4%, the Palestine Exchange regressed by 1.1%, and the Qatar Stock Exchange decreased by 0.6%. In parallel, activity on the Tunis Bourse was nearly unchanged in the covered period.

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

POLITICAL RISK OVERVIEW - August 2019

ALGERIA

Nationwide demonstrations demanding radical political change continued in August, despite the National Commission for Dialogue and Mediation's efforts to ease tensions and initiate dialogue with civil society. Secular and Islamist opposition figures refused to participate in the dialogue and accused the government of ignoring popular demands. Also, a number of students stormed a press conference of the National Commission to protest against its work. In parallel, authorities blocked five local news websites and deported a senior staff member of Human Rights Watch.

DEM REP CONGO

President Félix Tshisekedi agreed to form a coalition government with former President Joseph Kabila's alliance, Front Commun pour le Congo (FCC). The power-sharing agreement stipulates that the President's alliance Cap pour le Changement (CACH) will fill 17 ministerial posts and the FCC will take the remaining 31 posts, while six vice-ministers will be drawn from the CACH and the other 17 from the FCC. The President received a Catholic Church-backed petition, with more than 1.5 million signatures, urging the electoral commission to organize the local polls that have been repeatedly delayed since 2006. Attacks by the Islamist armed group Allied Democratic Forces in the eastern province of North Kivu sparked protests in several cities. Security forces stepped up efforts to suppress demonstrations, which resulted in the death of three protestors and the arrest of at least 74 demonstrators. In response to the escalation of violence, the President proposed the creation of a coalition with regional countries to help improve security conditions in the east of the DRC.

IRAN

Tensions between the U.S. and Iran remained high over maritime security in the Gulf region and Iran's threat to further breach the nuclear accord. The United Kingdom, Bahrain and Australia joined the U.S.-led maritime security initiative for the Middle East following several incidents between merchant vessels and Iranian authorities. Gibraltar's authorities released the Iranian tanker that they detained since early July on suspicion of transporting oil to Syria. Also, Iran said that it had dispatched one destroyer and one aircraft carrier to the Gulf of Aden. President Hassan Rouhani ruled out the possibility to enter bilateral talks with the U.S. until the latter lifts its economic sanctions against Iran. In contrast, the U.S. imposed additional sanctions on Iran, as well as on the Iranian tanker that was released from Gibraltar.

IRAQ

Prime Minister Adel Abdul-Mahdi banned all unauthorized military flights in Iraqi airspace following an explosion at a weapon storage facility that belongs to the Iranian-backed Popular Mobilization Units near Baghdad. Iraqi security forces continued their operations against Islamic State (IS) militants in the Kirkuk, Anbar and Diyala provinces. A U.S. soldier died during a clash with IS militants in the Nineveh province, while a suspected IS mortar attack killed two Iraqi police officers in the south of Kirkuk.

LIBYA

Fighting between the Libyan National Army (LNA) and forces loyal to the UN-backed Government of National Accord (GNA) did not lead to a substantial change in territorial control in and around Tripoli. The LNA denied responsibility for the attack on Tripoli's Mitiga airport, but claimed the airstrike on the Zuwara airport west of Tripoli, which allegedly housed Turkish drones. The GNA reportedly recaptured the Sebea district south of Tripoli from the LNA. Also, fighting escalated between militias allied to the GNA and the LNA in the southern town of Murzuq. As of August 30, over 16,700 individuals and 620 migrants have been displaced from Murzuq to adjacent municipalities. The LNA reportedly sent reinforcements to maintain control of the Sharara oilfield near Murzuq.

SUDAN

The ruling Transitional Military Council (TMC) and the opposition coalition Forces for Freedom and Change (FFC) signed a Constitutional Declaration, which outlines the power-sharing agreement between the military and the civilian opposition for a transitional period of 39 months until elections take place. The agreement stipulates that the FFC will appoint 67% of the legislative council, as well as the Prime Minister and 18 out of 20 ministers; while the TMC will choose the minsters of Defense and of the Interior. Economist Abdalla Hamdok of the FFC was sworn in as Prime Minister, while the TMC appointed General Abdel-Fattah Burhan as Chairman of the sovereign council.

SYRIA

Fighting intensified in northwestern Syria as regime forces advanced into the rebel-held Idlib province. As a result, the rebels retreated from Khan Shaykhun, Kafr Zita and Lataminah in and around the Idlib province. Thousands of Syrian protesters at the Turkish border called to end the regime's offensive on Idlib. The Kurdish People's Protection Units began to withdraw from the safe zone along the Turkish borders. Also, the Syrian regime carried out airstrikes targeting a Turkish convoy that was sent to support rebels in the Hama province. In parallel, the U.S. conducted an airstrike on an al-Qaeda affiliate in Idlib. Israel conducted airstrikes in Aqraba, south of Damascus, which allegedly targeted pro-Iranian forces.

TUNISIA

Preparations accelerated for the presidential elections that are scheduled for September 15 and the legislative elections that will be held on October 6, 2019. The electoral commission approved 26 candidates for the presidential elections, including front-runners businessman Nabil Karoui and Prime Minister Youssef Chahed. PM Chahed delegated his powers to the Minister of Public Service, Governance and Fight against Corruption, in order to focus on his campaign and ensure fair elections. In parallel, security forces arrested Karoui on charges of money laundering and tax evasion. However, the electoral commission indicated that Mr. Karoui's candidacy remained valid despite his arrest. Further, interim President Mohamed Ennaceur extended the nationwide state of emergency until the end of 2019.

TURKEY

Military operations continued against the Kurdistan Workers' Party (PKK), while the Turkish government intensified its crackdown on members of the pro-Kurdish Peoples' Democratic Party (HDP) in southeastern Turkey. The government sent a military convoy to support rebels in northwestern Syria, as the regime threatened to take control of a Turkish observation post in the Hama province. In parallel, the U.S. and Turkey agreed to set up a joint operations center to establish a safe zone in northern Syria. Turkish authorities extended to October 30 the deadline for Syrian refugees to leave Istanbul and return to the Turkish provinces where they are registered. Also, the government arrested 48 suspected Islamic State-linked individuals in several Turkish cities.

YEMEN

The UAE-backed Southern Transitional Council (STC) carried out airstrikes on the southern city of Aden, and seized the city from the Hadi government. Also, the pro-STC Security Belt fighters seized military bases in the southern cities of Zinjibar and Shebwa. In response, forces loyal to President Abdrabbuh Mansour Hadi launched counterattacks to recapture the two military bases and to retake the city of Aden. The UAE announced that it carried out air strikes to support STC fighters against "terrorist militias" in Aden. Further, Huthi rebels conducted drone attacks on Saudi Arabia's Abha airport and Shaybah oil field.

Source: International Crisis Group, Newswires

OUTLOOK

EMERGING MARKETS

Impact of cut in U.S. interest rates to vary across banking sectors

In its assessment of the impact of lower U.S. interest rates on eight banking sectors in the Middle East, Goldman Sachs anticipated banks in Turkey and Egypt to be the main beneficiaries of reduced rates. It currently expects the U.S. Federal Reserve to cut its Fed Funds rate two more times during the remainder of 2019, with a cut of 25 basis points (bp) in September and a similar reduction in October.

Goldman Sachs expected Turkish banks to benefit from a lower cost of funding, as the cuts in U.S. interest rates would reduce funding pressure on deposits and wholesale funding for banks. Also, it anticipated lending growth to pick up as interest rates in Turkey would normalize following the 12 percentage points increase in the benchmark interest rate in 2018. It considered that lower U.S. interest rates would ease the pressure on the banks' asset quality and cost of risk. Further, it noted that the cuts in U.S. rates would narrow the net interest margins at banks in Egypt, but it added that this would largely be offset by stronger lending activity, higher growth in fee income, and lower the cost of risk.

In parallel, it considered that banks in Saudi Arabia would be the most negatively affected by cuts in U.S. interest rates, due to their large share of non-interest-bearing funding. It noted that 60% of the asset base of Saudi banks would re-price within 12 months of a cut in U.S. rates, while 70% of their liabilities, including equity, are non-interest bearing. Still, it noted that lower U.S. rates would support lending growth and reduce the cost of risk. Further, it pointed out that the impact of the cuts in U.S. interest rates on banks in the UAE and Kuwait is neutral, while it is slightly positive for banks in Qatar. It anticipated some pressure on the net interest margins at UAE banks from lower U.S. rates, which would be partially offset by reduced pressure on their cost of risk. It estimated that a 50bp cut in U.S. interest rates would narrow the net interest margins by 14bp at Saudi banks, by 7bp at banks in the UAE, by 4bp at banks in Egypt and by 2bp at banks in Qatar, while it will widen the net interest margins by 1bp at banks in Turkey. Also, it estimated that a 50bp cut in U.S. rates would reduce the return on equity by 87bp at Saudi banks, by 62bp at banks in Kuwait, by 51bp at banks in the UAE, by 24bp at banks in Egypt and by 19bp at banks in Qatar, while it would increase the return on equity by 12bp at banks in Turkey.

Source: International Monetary Fund

UAE

Economic growth in Dubai projected at 3% in 2020

S&P Global Ratings projected Dubai's real GDP growth to accelerate from slightly below 2% in 2018 to 2.4% in 2019, supported mainly by the construction and real estate sectors. It expected growth at nearly 3% in 2020 due to higher tourism activity and increased spending linked to Expo 2020. It then anticipated economic growth to decelerate to 2.5% in 2021 and 2% in 2022, sustained by traditional growth drivers such as trade and transportation. It said that relatively low global oil prices, along with weaker regional demand and rising protectionism in the U.S. and China, could further constrain Dubai's transshipment trade flows. Also, the agency anticipated real estate prices in the Emirate to regress by 5% to 10% in 2019, and considered that a longer and deeper downturn in the real estate market could weigh on economic activity and affect government finances. It indicated that the government of Dubai generates about 70% of its revenues from non-tax sources, partly from land transfer and mortgage registration fees, housing and municipality fees, as well as from real estate-related income in the form of dividends from government-owned developers. It expected that the recently-announced economic stimulus plans to promote small- and medium-sized enterprises and public-private partnerships would gradually improve Dubai's long-term growth prospects.

In parallel, S&P indicated that Dubai's public debt burden is almost equally split between the debt of the central government and of government-related entities (GREs). It noted that the Emirate's government debt, estimated at 56% of GDP in 2018, is mainly from domestic sources and on concessional terms. It said that risks to the Emirate's debt sustainability could arise due to contingent liabilities stemming from the borrowing of GREs, estimated at about 52% of GDP in 2018. It added that about 74.6% of the GREs' debt is due to mature in the 2019-22 period.

Source: S&P Global Ratings

DEM REP CONGO

Real GDP growth to average 4% in 2019-20 period

The International Monetary Fund projected real GDP growth in the Democratic Republic of the Congo (DRC) to decelerate from an estimated 5.8% in 2018 to 4.3% in 2019 and 3.9% in 2020, due to lower activity in the extractive industries. It anticipated growth in the extractive sector to slow down from 16.9% in 2018 to 5.4% this year and 4.4% in 2020. However, it expected activity in the non-extractive industries to grow by 3.8% in 2019 and by 3.7% in 2020 relative to an expansion of 1.9% last year, in case authorities continue to implement structural reforms. The Fund said that the main risks to the outlook include a drop in commodity prices and fiscal loosening that would lead to the monetization of the fiscal deficit. However, it pointed out that the peaceful political transition earlier this year, as well as the government's prudent macroeconomic policies provide an opportunity to strengthen public finances, boost growth of the non-extractive sector, tackle corruption and enhance governance.

In parallel, the IMF forecast the DRC's external debt level at 13.3% of GDP in 2019 and 12.7% of GDP in 2020. It said that the low stock of external debt mainly reflects the country's limited access to external borrowing. It considered that low public revenues are an obstacle to debt sustainability and to the government's ability to borrow externally to finance its development and public investment plans. It added that authorities need to carefully assess public investment projects, avoid costly borrowing and collateralized loans, as well as clear domestic arrears in order to maintain debt sustainability.

Further, the IMF projected the current account deficit at 3.5% of GDP in 2019 and 4.2% of GDP in 2020. Also, it expected the Banque Centrale du Congo's (BCC) foreign currency reserves to rise from \$657m at end-2018, or 2.6 weeks of imports to \$1bn, or 3.7 weeks of import cover at end-2019, and \$1.1bn, or 3.9 weeks of imports, at end-2020. As such, it urged authorities to implement the 2018 Central Bank Law, which would enable the BCC to increase its foreign currency reserves, strengthen its independence and enhance its ability to conduct monetary policy and promote financial stability.

Source: International Monetary Fund

ECONOMY & TRADE

AFRICA

Chinese loans reach $116bn in 2010-17 period

Research provider IHS Markit indicated that the reliance of African countries on loans from China has increased significantly in the past two decades. It noted that Chinese institutions, which consist of the Export–Import Bank of China, the China Development Bank and other Chinese commercial banks and contractors, extended an aggregate of $116bn in loans to African countries over the 2010-17 period, compared to a total of $27bn over the 2000-09 period. It pointed out that the transportation sector attracted 30.6% of aggregate Chinese loans to Africa in the 2000-16 period, followed by the power sector (24.1%), the mining industry (15.7%), and the telecom sector (5.6%). It said that Angola was the largest African recipient of Chinese loans with $42.8bn, or 30% of total lending to the region in the 2000-17 period. Ethiopia followed with $13.7bn, or 9.6% of the total, then Kenya with $9.8bn (6.8%), the Republic of Congo with $7.4bn (5.2%), Sudan with $6.5bn (4.5%), Zambia with $6.4bn (4.4%), Cameroon with $5.6bn (3.9%) and Nigeria with $4.8bn (3.4%). IHS noted that a large share of Chinese financing was allocated to high-cost projects with weak due diligence, which constitutes a risk to the debt sustainability of African economies, especially to sovereigns with weak debt servicing capacity. As such, it said that Chinese authorities recently introduced a debt sustainability framework for countries seeking new loans, which covers macroeconomic prospects, stress tests and debt repayment capacity.

Source: IHS Markit

UAE

Very high economic strength supports credit profile of the sovereign

Moody's Investors Service indicated that the UAE's 'Aa2' issuer rating is driven by the high probability of support from the government of Abu Dhabi. It noted that the UAE's credit profile reflects its "Very High" economic strength as reflected by its elevated GDP per capita, large hydrocarbon resources and strong growth rates. It said that the country's "High" institutional strength is supported by the strong institutional framework and effectiveness, but is constrained by limited economic and fiscal data. It added that the UAE's "Very High" fiscal strength is underpinned by Abu Dhabi's strong government balance sheet and the UAE's return to budget surpluses, despite the elevated debt level of government-related entities. Further, it noted that the country's "Moderate" susceptibility to event risk is mostly driven by geopolitical developments. In parallel, Moody's indicated that Abu Dhabi's 'Aa2' issuer rating is supported by its "Very High" economic strength, "High" institutional strength, "Very High" fiscal strength and "Moderate" susceptibility to event risk. It added that the Emirate's fiscal strength is driven by its very strong government balance sheet, an improving fiscal balance amid the implementation of new non-oil revenue measures, and a low government debt level. Further, it pointed out that Sharjah's 'A3' issuer rating is supported by the Emirate's membership in the UAE, and reflects its small but relatively diversified economy, as well as its exposure to macroeconomic developments in other emirates. The agency noted that Sharjah's fiscal strength reflects its moderate but rising debt burden, a narrow tax base, and low government revenues relative to GDP.

Source: Moody's Investors Service

PAKISTAN

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'B-/B' Pakistan's long- and short-term sovereign credit ratings, with a 'stable' outlook. It indicated that the ratings reflect the country's subdued economic outlook, heightened external indebtedness and liquidity needs, as well as wide fiscal deficits and an elevated public debt level. It projected real GDP growth to average 3% annually in the 2019-22 period, reflecting weak domestic confidence, significant fiscal and external imbalances, inadequate infrastructure, and security risks. It said that the IMF reforms and funding program, along with other bilateral and multilateral financing, will help alleviate Pakistan's external pressures, support the State Bank of Pakistan's foreign currency reserves, as well as address the country's near-term funding risks. It projected the current account deficit to gradually narrow from an estimated 4.8% of GDP in the fiscal year that ended in June 2019 to 3% of GDP in FY2021/22 as the economy rebalances. Still, it projected the country's gross external financing needs at 161.5% of current account receipts and usable reserves annually in FY2019/20 and at 152.5% in FY2020/21. Further, S&P expected the fiscal deficit to narrow from 8.9% of GDP in FY2018/19 to 5% of GDP by FY2021/22, in case the government implements fiscal reforms under the IMF program. It estimated the general government debt level to have increased from 70% of GDP at end-June 2018 to 79.3% of GDP at end-June 2019, mainly due to a wider fiscal deficit, a weaker currency and rising external borrowing, and projected it at around 81% of GDP in the next three years.

Source: S&P Global Ratings

RWANDA

Agencies take rating actions

S&P Global Ratings upgraded from 'B' to 'B+' Rwanda's long-term foreign and local currency sovereign credit ratings, and revised the outlook on the ratings from 'positive' to 'stable'. It attributed the upgrade to the country's strong growth prospects, its moderate government debt level despite expansionary fiscal policies, and its low debt servicing costs. The agency projected real GDP growth to average 7.6% annually in the 2019-20 period. Further, it expected the fiscal deficit to widen from 5.5% of GDP in the fiscal year that ended in June 2019 to 6% of GDP in FY2019/20, mainly due to higher government spending. In turn, it projected the public debt level to slightly increase from 49% of GDP at the end of June 2019 to 51.3% of GDP at end-June 2020, but to remain moderate compared to similarly-rated peers. It anticipated that the government would fund a large portion of the fiscal deficit through long-term loans on concessional terms, which implies low funding costs. In parallel, Fitch Ratings affirmed at 'B+' Rwanda's long-term foreign- and local-currency Issuer Default Ratings, with a 'stable' outlook. It noted that the ratings are supported by the country's stable macroeconomic performance, strong governance and favorable business environment, but are constrained by its low income per capita, fiscal and current account deficits, and its high public and external debt levels. The agency projected the current account deficit to widen from 7.9% of GDP in 2018 to more than 10% of GDP during the 2019-20 period due to rising imports, increasing external interest payments and lower grants.

Source: S&P Global Ratings, Fitch Ratings

BANKING

SAUDI ARABIA

Banks' profits down 8% to $2.8bn in second quarter of 2019 on higher provisioning costs

Regional investment bank EFG Hermes indicated that the aggregate net profits of 11 Saudi banks stood at SAR22.7bn, or $6bn, in the first half of 2019, constituting a decline of 1% from the same period last year. It pointed out that the banks' earnings totaled SAR10.3bn, or $2.8bn, in the second quarter of 2019, down by 16% from the previous quarter and by 8% year-on-year. It attributed the quarter-on-quarter decrease in the banks' earnings to a decline in their non-interest income, as well as to a sharp rise in their provisioning. It said that the banks' cost of risk increased from 57 basis points in the first quarter of 2019 to 120 basis points in the second quarter of the year. Further, it noted that the banks' high share of lending to the construction and real estate sectors constitutes a risk to their credit quality. It indicated that the banks have a $20bn exposure to construction company Saudi Binladin Group (SBL), which is seeking to restructure its debt. It estimated that Saudi banks would need to accumulate additional provisions of SAR5.25bn, or $1.4bn, in case SBL restructures its loans. In parallel, it noted that the banks' aggregate loans increased by 3% annually at the end of June 2019, supported by strong mortgage growth, while their total deposits expanded by 4% year-on-year. As such, it considered that the banks' liquidity is at a comfortable level, with a loans-to-deposits ratio of 84% at end-June 2019.

Source: EFG Hermes

IRAQ

Central Bank encourages banks' consolidation

The Central Bank of Iraq (CBI) announced in August 2019 that it will provide banks that have a strong financial position compared to peers incentives to acquire other banks operating in the country. It added that the incentives include increasing the bank's access to the CBI's funds that support lending to small-and medium-sized enterprises, as well as exempting the bank, if it wants to invest outside Iraq, from the related regulatory requirements for a period of three years. In addition, it indicated that commercial banks that are interested in establishing an Islamic banking entity within their group could acquire an Islamic bank that is already operating in the country. The CBI's announcement complements the circular it issued in June 2019 that regulates the process of merger and acquisitions (M&A) of banks in the country. According to the CBI, there are 77 licensed banks in Iraq, including six state-owned commercial banks, 24 privately-owned local commercial banks, 17 foreign commercial banks, as well as 30 Islamic banks. The banking sector is highly concentrated with the three largest state-owned banks, which are Rafidain Bank, Rasheed Bank and Trade Bank of Iraq, accounting for about 90% of the sector's assets. Fitch Ratings indicated that Iraq's banking sector is under-developed, fundamentally weak and is not in a position to provide much financing to the government. It added that the private sector's credit-to-GDP ratio is one of the lowest among Fitch-rated sovereigns. It noted that the two largest state-owned banks, Rafidain Bank and Rasheed Bank have high non-performing loans and exceptionally low capital adequacy. The private sector's credit-to-GDP ratio in Iraq stood at 11% at the end of 2018.

Source: Central Bank of Iraq, Fitch Ratings, Byblos Research

ARMENIA

Banks' reliance on external funding to remain high in coming two years

S&P Global Ratings maintained Armenia's banking sector in 'Group 8' under its Banking Industry Country Risk Assessment (BICRA), with economic and industry risk scores of '8' each. The BICRA framework evaluates banking systems based on economic and industry risks facing the sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 8' include Argentina, Bolivia, Cyprus, Georgia, Jamaica, Jordan, Paraguay, Russia and Uzbekistan. The agency indicated that Armenia's economic risk score reflects "intermediate risk" in its economic imbalances, "very high risk" in its economic resilience, and "extremely high" credit risks in the economy. It noted that Armenia's elevated economic risks reflect its low-income economy and its reliance on Russia through remittances and trade channels. It added that rising residential property prices and fast credit growth could lead to a build-up of economic imbalances. It noted that the industry score reflects the country's "high risk" in its competitive dynamics, as well as "very high risk" in its institutional framework and system-wide funding. It said that the banking sector's regulations and supervision are strong compared to peers in the Commonwealth of Independent States, but they still lag international standards. It expected the consolidation of smaller banks to accelerate over the next five years due to rising competition. It anticipated the sector's reliance on external funding to remain high in the next two years. It indicated that the trend for the banking sector's economic and industry risks is 'stable'.

Source: S&P Global Ratings

TURKEY

New incentives unlikely to encourage lending

Fitch Ratings considered that the Central Bank of the Republic of Turkey's (CBRT) recent incentives for banks to expand their lira-denominated loans by between 10% and 20% are not likely to lead to a significant acceleration in lending. It said that the new incentives reduce from 7% to 2% the reserve requirement on lira deposits with a maturity of up to three months, cut from 4% to 2% the reserve requirement on lira deposits with a maturity of between three and six months, as well as raise to 15% the interest rate on lira reserves. The agency pointed out that privately-owned banks, which represent 60% of the Turkish banking sector, expanded their lira-denominated loans by less than 10% at end-June 2019. But it did not expect these banks to increase their efforts to qualify for the CBRT's new incentives in the short term, given their limited appetite to accelerate lending growth amid a volatile operating environment. It added that private banks already have good liquidity, and considered that the new incentives are unlikely to significantly improve their profitability metrics. In contrast, Fitch expected state-owned banks, which represent around one-third of the banking sector, to immediately benefit from the new incentives, given that they posted an annual growth of between 10% and 20% in lira-denominated lending at end-June 2019. It estimated that the banking sector's aggregate annual return on assets would increase by less than 10 basis points in case the whole sector qualifies for the CBRT's incentives, while the annual return on equity would rise by less than one percentage point.

Source: Fitch Ratings

ENERGY / COMMODITIES

Brent oil prices average $65 p/b in first eight months of 2019

ICE Brent crude oil front-month prices averaged $65 per barrel (p/b) in the first eight months of 2019, constituting a decline of 9.6% from an average of $72 p/b in the same period of 2018. Also, oil prices dropped by 7.3% month-on-month and by 19.4% year-on-year to an average of $59.5 p/b in August 2019. The decline in oil prices in the first eight months of the year was mainly due to U.S.-China trade tensions, concerns about a global economic slowdown, and rising U.S. oil production. Downside factors have more-than-offset the ongoing OPEC agreement to cut oil production, the expiry of the U.S. waivers for the main importers of Iranian oil in April 2019, as well as heightened geopolitical tensions in the Middle East region. In addition, signs of rising oil production in Iraq, Nigeria and Russia in August, as well as the implementation of additional trade tariffs by the U.S. and China on September 1, are currently exerting downward pressure on oil prices. As such, IHS Markit considered that OPEC countries would need to cut production by an additional one million barrels per day in order to keep prices at about $60 p/b, despite output losses in Iran and Venezuela. It added that Russia could refrain from implementing additional output cuts, as several Russian oil firms are already facing difficulties. Overall, oil prices are forecast to average $63.5 p/b in the third quarter and $64.2 p/b in the fourth quarter of 2019, as well as $65 p/b in 2019.

Source: IHS Markit, Refinitiv, Oilprice, Byblos Research

Iraq's oil exports up 1% in August 2019

Preliminary figures show that Iraq's crude oil exports totaled 111.7 million barrels in August 2019, constituting an increase of 1% from 110.5 million barrels in July 2019. They averaged 3.6 million barrels per day (b/d) in August 2019 compared to 3.57 million b/d in the previous month. Oil exports from the country's central and southern fields reached 107.5 million barrels in August, followed by shipments from the Kirkuk fields with 3.3 million barrels, those from the northern Qayara oil field with 928,963 barrels, and exports to Jordan with 3,479 barrels. Oil export receipts stood at $6.3bn in August 2019, down by 5.2% from $6.7bn in July.

Source: Iraq Ministry of Oil, Byblos Research

Nigeria's oil receipts down 4% in first half of 2019

Nigeria's crude oil and condensate export receipts totaled $2.54bn in the first half of 2019, constituting a decrease of 3.5% from $2.63bn in the same period of 2018. Export revenues during the covered period consisted of $1.9bn from crude oil exports (76%), $542.6m from gas exports (21.4%) and $65.4m in other receipts (2.6%). The authorities transferred $32.3m in hydrocarbon revenues to the Federation Account, while they used $280.7m to pay global oil companies to guarantee current and future production.

Source: Nigerian National Petroleum Corporation

Libya's oil & gas receipts at $2.2bn in July 2019

Libya's total oil & gas revenues reached $12.5bn in the first seven months of 2019, constituting a decrease of 5% from $13.2bn in the same period last year. Oil & gas receipts amounted to $2.2bn in July 2019, up by 23.6% from $1.74bn in June 2019 and by 6.3% from $2.02bn in the same month of 2018. Crude oil revenues grew by 23.8% month-on-month to $2bn in July, while gas revenues rose by 25.4% to $137.4m. The rise in hydrocarbon receipts in July was mainly due to higher crude oil shipments.

Source: National Oil Corporation, Byblos Research

Base Metals: Copper prices reach $5,585 per ton, lowest level since May 2017

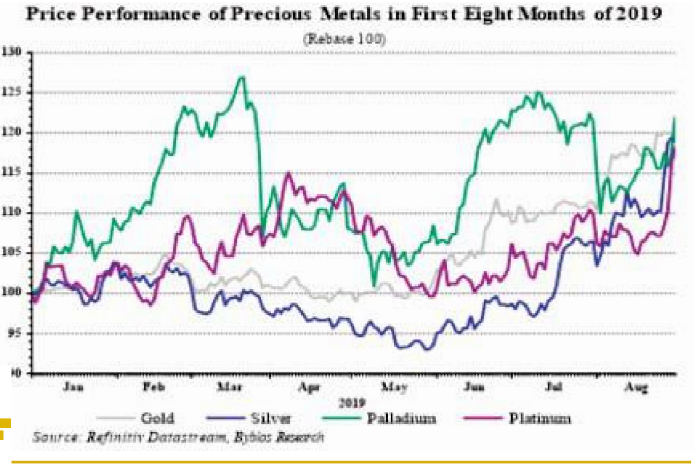
LME copper cash prices averaged $6,082 per metric ton in the first eight months of 2019, constituting a decrease of 9.5% from an average of $6,720 per ton in the same period of 2018. The decline in prices was mainly driven by the ongoing trade dispute between the U.S. and China, which started in March 2018 and has been weighing on the global economy, notably on manufacturing activity in major economies. As a result, the prolonged trade tensions between the world's largest two economies increased investors' concerns about lower demand for base metals, notably from China. In fact, the metal's prices decreased by 4% from an average of $5,941 per ton in July 2019 to an average of $5,705 per ton in August, as the trade dispute re-escalated in early August. In addition, copper prices reached $5,585 per ton on September 3, 2019, their lowest level since May 2017, as unexpected weak economic data from the U.S. reinforced fears about a potential global recession. However, prices are expected to recover following China's announcement of new measures that aim to support its economy and potentially improve demand for copper, as well as by concerns about supply disruptions.

Source: Refinitiv, Byblos Research

Precious Metals: Platinum prices to reach $1,100 per ounce by end of 2019

Platinum prices reached a 19-month high of $977 per troy ounce on September 4, 2019, increasing by 4% from end-August 2019 and by 23% from the end of 2018, mainly supported by increased investments in platinum Exchange Traded Funds (ETFs). Prices are projected to further increase to around $1,100 an ounce by the end of 2019, due to demand- and supply-side factors. Demand-side dynamics include strong ongoing demand for platinum ETFs and a recovery in autocatalyst demand for the metal, especially in China, while supply-side factors consist of subdued growth in global platinum production amid unresolved labor negotiations in South Africa. Global platinum supply is expected at 8 million ounces in 2019, nearly unchanged from 2018, as higher North American and Russian output would be offset by lower South African production. In parallel, global physical demand for platinum is forecast to remain nearly unchanged at 7.8 million this year, as higher demand from the autocatalyst and chemical sectors would be offset by a decline in jewelry consumption. The global automotive sector is projected to account for 41.1% of total platinum demand in 2019, followed by demand for jewelry with 26.7%, and demand from the chemical sector with 22.5%.

Source: Refinitiv, TD Securities, 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	-	B3	B+	-	B+								
	-	Stable	Stable	-	Stable	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	-	-	-	-	B-								
	-	-	-	-	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+								
	Stable	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	Negative	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+	BB+								
	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	CCC	B	B-								
	Negative	Stable	-	Negative	Negative	-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	Negative	-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								
	-	-	-	-	Stable	-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	-	Ba3	B+	-	B-								
	-	Stable	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	Positive	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	Positive	-	Stable	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Negative	-2.9	36.6	-	25.8	4.2	95.1	-4.6	2.4
Russia	BBB-	Baa3	BBB	-	BBB-								
	Stable	Stable	Stable	-	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-	Caa1	B-	-	B-								
	Stable	Stable	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 Date	Last meeting Action	Next meeting
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	03-Sep-19	No change	01-Oct-19
New Zealand	Cash Rate	1.00	07-Aug-19	Cut 50bps	25-Sep-19
Switzerland	3 month Libor target	-1.25-(-0.25)	13-Jun-19	No change	19-Sep-19
Canada	Overnight rate	1.75	04-Sep-19	No change	30-Oct-19
Emerging Markets					
China	One-year lending rate	4.25	20-Aug-19	Cut 10bps	20-Sep-19
Hong Kong	Base Rate	2.5	01-Aug-19	Cut 25bps	N/A
Taiwan	Discount Rate	1.375	20-Jun-19	No change	19-Sep-19
South Korea	Base Rate	1.50	30-Aug-19	No change	16-Oct-19
Malaysia	O/N Policy Rate	3.00	09-Jul-19	No change	12-Sep-19
Thailand	1D Repo	1.50	07-Aug-19	Cut 25bps	18-Sep-19
India	Reverse repo rate	5.40	07-Aug-19	Cut 35bps	04-Oct-19
UAE	Repo rate	2.50	31-Jul-19	Cut 25bps	N/A
Saudi Arabia	Repo rate	2.75	31-Jul-19	Cut 25bps	N/A
Egypt	Overnight Deposit	14.25	22-Aug-19	Cut 150bps	26-Sep-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	24-Jul-19	No change	23-Sep-19
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	8.00	15-Aug-19	Cut 25bps	26-Sep-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	05-Aug-19	No change	03-Oct-19
Bulgaria	Base Interest	0.00	02-Sep-19	No change	01-Oct-19
Kazakhstan	Repo Rate	9.00	15-Jul-19	No change	09-Sep-19
Ukraine	Discount Rate	16.50	05-Sep-19	Cut 50bps	24-Oct-19
Russia	Refi Rate	7.25	26-Jul-19	Cut 25bps	06-Sep-19

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