500 ISSUES+
Issue 598 | September 12, 2019

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Digitally-delivered services at $2.9 trillion in 2018

The United Nations Conference on Trade & Development (UNCTAD) indicated that the aggregate amount of services delivered digitally worldwide increased from $1.2 trillion in 2005 to $2.9 trillion in 2018, constituting a compound annual growth rate (CAGR) of 7% during the 2005-18 period. It noted that developed economies accounted for 76% of the aggregate amount of services delivered digitally in 2018, followed by developing countries (22.5%) and transition economies (1.3%). It indicated that the digital economy has been expanding significantly since the 1990s, driven by the ability to collect, use and analyze massive amounts of data. In this context, it projected the global internet protocol traffic, which is a proxy for data flows, at 150,700 gigabytes (GB) per second in 2022, compared to 100 GB of traffic per day in 1992, supported by the increasing number of people coming online for the first time and by the expansion of the Internet of Things. The UNCTAD indicated that the size of the digital economy is estimated at $11.5 trillion, or the equivalent of 15.5% of global GDP, in 2016. It noted that the current estimate represents the broad scope of the digital economy, which is the use of various digital technologies for performing different economic activities. Further, it said that the narrow dimension of the digital economy, which consists of information and communication technologies (ICT) infrastructure, the ICT-producing sector, and platform-based services, is estimated at $3.5 trillion, or 4.5% of global GDP, in 2016. Also, it pointed out that the digital economy is mainly concentrated in the U.S. and China, given that 75% of all patents related to blockchain technologies and 50% of global spending on the Internet of Things are in the U.S. and China.

Source: UNCTAD

GCC

Assets under management at GCC funds reach $32bn at end-June 2019

Figures compiled by Refinitiv show that funds in the Gulf Cooperation Council (GCC) countries had $32.4bn in assets under management (AUM) at end-June 2019, up from $30.5bn at end-2018. The study attributed the increase in AUM at GCC funds to net inflows of $2.5bn in the first half of 2019, which were partly offset by market losses of $0.6bn. It noted that Saudi Arabian funds had $26.9bn in AUM at end-June 2019, or 83% of total AUM at GCC funds, followed by funds in Kuwait with $3.2bn (9.8%), the UAE with $1.7bn (5.1%), Qatar with $0.4bn (1.2 %), Oman with $0.3bn (0.8%), and Bahrain with $0.1bn (0.3%). Further, it said that funds investing in money markets had $20.2bn in AUM at end-June 2019, or 62.3% of total AUM. It added that funds investing in equities followed with $9.2bn, or 28.4% of the total, then funds investing in multiple asset types with $1.2bn (3.7%), those investing in bonds with $1bn (3.1%), real estate funds with $0.7bn (2.2%), and commodity funds with $2m. It noted that money market funds attracted $2.8bn in net inflows in the first half of 2019, and funds investing in bonds had inflows of $0.4bn. In contrast, it said that equity funds saw net outflows of $0.5bn in the first half of 2019, followed by real estate funds (-$0.2bn), mixed-asset funds (-$30m), and commodity funds (-$0.1m).

Source: Refinitiv

EMERGING MARKETS

External debt issuance up 18% to $428bn in first eight months of 2019

Figures compiled by Citi Research show that emerging markets (EMs) issued $428bn in external sovereign and corporate bonds in the first eight months of 2019, constituting a rise of 18% from $363bn in the same period of 2018. The debt issued in Asia excluding Japan reached $225bn or 52.6% of the total, followed by bond issuance in the Middle East & Africa (ME&A) with $80bn (18.7%), Latin America with $65bn (15.2%), and Emerging Europe with $57bn (13.4%). Further, EM corporates issued $316bn in bonds, or 73.8% of total sovereign and corporate bond issuance, in the covered period. Asia ex-Japan issued $211bn, or 66.8% of total corporate issuance in the first eight months of 2019, followed by Latin America with $43bn (13.7%), the ME&A region with $38bn (12%), and Emerging Europe with $23bn (7.4%). EM sovereigns issued $112bn in bonds, or 26.2% of new sovereign and corporate bonds, in the covered period. The ME&A region issued $42bn, or 37.5% of total new sovereign bonds, followed by Emerging Europe with $34bn (30.4%), Latin America with $22bn (19.6%), and Asia ex-Japan with $14bn (12.5%). In parallel, Citi projected the EMs' sovereign external debt service payments at $15.3bn between September and November 2019. It forecast sovereign external debt service payments in Emerging Europe at $6.7bn, or 43.8% of the total, followed by the ME&A region with $4.1bn (26.8%), Latin America with $3.7bn (24.2%), and Asia ex-Japan with $0.9bn (5.9%). It expected external debt service payments of EM corporates at $46.1bn in the same period, of which $25.9bn would be from Asia ex-Japan.

Source: Citi Research, Byblos Research

KUWAIT

Profits of listed companies up 3% to $3.6bn in first half of 2019

The cumulative net profits of 155 companies listed on Boursa Kuwait totaled KD1.1bn, or $3.6bn, in the first half of 2019, constituting an increase of 2.8% from KD1.07bn, or $3.5bn, in the same period of 2018. Listed banks generated net profits of $2bn and accounted for 55.7% of aggregate net earnings in the covered period. Telecommunications companies followed with $447.1m (12.4%), then financial services firms with $437.1m (12.1%), industrial companies with $345.8m (9.6%), real estate firms with $166.6m (4.6%), insurers with $93.8m (2.6%), consumer services providers with $54.2m (1.5%), consumer goods firms with $22.7m (0.6%), oil & gas companies with $19m (0.5%), healthcare providers with $6.4m (0.2%), as well as technology firms with $3.4m and basic materials companies with $1.9m (0.1% each). Further, the net earnings of insurers rose by 25% year-on-year in the first half of 2019, followed by the profits of telecommunications firms (+11.1%), banks (+8.1%), and consumer goods companies (+4.1%). In contrast, the income of basic material firms regressed by 87.3% annually in the covered period, followed by healthcare providers (-72.6%), oil & gas companies (-33.2%), technology firms (-18.4%), real estate companies (-16.6%), industrial firms (-9%), consumer services providers (-3.7%), and financial services companies (-1%).

Source: KAMCO

OUTLOOK

AFRICA

New free trade agreement faces implementation risks

IHS Markit indicated that 27 member states of the African Union (AU) ratified the African Continental Free Trade Agreement (AfCFTA), while the remaining AU members, except Eritrea, committed to join the AfCFTA area. It noted that the AfCFTA aims to establish a single customs union in order to expand intra-African trade. It said that the agreement seeks the progressive elimination of tariffs on the vast majority of products within the next five to 15 years. It added that the AfCFTA targets the removal of non-tariffs barriers, such as the non-application of reciprocal tax arrangements, import licensing regulations, and domestic subsidies.

It projected the total trade in goods between AU countries to increase by 32% in case all members implement the AfCFTA. It also forecast trade between countries that do not currently share a free trade agreement to increase from $13bn to $32.5bn, if all African countries joined the AfCFTA. It expected South Africa, Nigeria and North African countries, which export the highest amount of goods to other African countries without regional trade agreements, to benefit most from the AfCFTA in terms of higher export revenues. It indicated that the abolition of tariffs under AfCFTA would make exports from these countries cheaper and, in turn, increase foreign demand for their goods.

However, IHS anticipated that the implementation of the AfCFTA will be constrained by border delays, the excessively high cost of transporting goods, trade policy disputes among its members, and regional political rivalries. Further, it noted that the union's prospective members have significantly divergent economies that generate uneven terms of trade, which would be exacerbated by the removal of tariff and non-tariff barriers under AfCFTA. As such, it said that member states that have committed to join the AfCFTA are likely to be reluctant to remove tariffs, in order to protect certain domestic industries or to preserve fiscal revenues that are generated from tariffs.

Source: IHS Markit

SAUDI ARABIA

Real GDP growth at 3% in 2020, balanced risks to the outlook

The International Monetary Fund projected Saudi Arabia's real GDP growth to decelerate from 2.2% in 2018 to 1.9% in 2019, due to a slowdown in hydrocarbon sector activity following oil production cuts under the extended OPEC agreement. It anticipated hydrocarbon GDP growth to decelerate from 2.8% in 2018 to 0.7% this year, while it expected activity in the non-hydrocarbon sector to accelerate from 2.1% last year to 2.9% in 2019 amid higher government spending and improved confidence. It projected real GDP growth at 3% in 2020, as it anticipated activity in the hydrocarbon sector to expand by 3.5% and for fiscal consolidation to constrain growth in the non-oil economy to 2.7% next year. It expected the authorities' ongoing reforms to start yielding results in the coming years, and forecast non-hydrocarbon growth at about 3.2% over the medium term and overall growth at around 2.5%. It anticipated that the risks to the growth outlook are broadly balanced, and considered the main risk to be the volatility of global oil prices.

In parallel, the IMF forecast the fiscal deficit to widen from 5.9% of GDP in 2018 to 6.5% of GDP in 2019, due to higher capital expenditures. It projected the deficit to narrow to 5.1% of GDP in 2020 in case fiscal consolidation resumes and if public revenues stabilize. It considered that the decrease in public expenditures is key to rebuilding fiscal buffers and to reducing medium-term fiscal vulnerabilities. As such, it encouraged authorities to continue with the planned energy and water price reforms, to contain the public-sector wage bill, and to be more prudent in increasing capital spending. The Fund projected the public debt level at 23% of GDP at end-2019 and 24.7% of GDP at end-2020. It forecast the current account surplus to regress from 9.2% of GDP in 2018 to 6.9% of GDP in 2019 and to 6% of GDP in 2020, as hydrocarbon export receipts decline and imports increase. Also, it expected foreign assets to reach $500.3bn at end-2019 and $504.7bn at end-2020. It anticipated foreign assets to decline in the medium term, as the current account moves to a near balance and as authorities continue to invest overseas.

Source: International Monetary Fund

NIGERIA

Capital outflows and lower oil prices are main risks to currency stability

Bank of America Merrill Lynch (BofAML) projected the Nigerian naira to be broadly stable until the end of 2019, while it expected the Central Bank of Nigeria's (CBN) foreign currency reserves to continue to decline in coming months. It noted that the naira has come under mild pressure since July 2019, as the Nigeria Autonomous Foreign Exchange Rate weakened from around NGN360 per US dollar in July 2019 to NGN363 a dollar at the end of August 2019. It pointed out that the pressure on the currency coincided with a decline of $2bn in foreign currency reserves from end-July 2019 to reach $43.1bn at the end of August 2019, as the CBN stepped up its intervention in the foreign currency market to defend the naira. It projected the exchange rate at between NGN363 per US dollar and NGN365 per dollar during the remainder of the year, while it expected foreign currency reserves to decline by an additional $2.4bn from end-August to reach $40.7bn at the end of 2019. It added that the main risks to the stability of the exchange rate include lower global oil prices and continued significant portfolio outflows. It estimated that foreign investors hold currently about $10bn worth of domestic debt, but it noted that the CBN would be able to manage the portfolio outflows as long as global oil prices are at around $60 p/b.

In parallel, BofAML projected Nigeria's real GDP to grow by 2.4% in 2019, but it noted that subdued non-hydrocarbon sector activity and lower-than-anticipated growth of 2% in the second quarter of 2019 could result in a weaker growth rate this year. It forecast the inflation rate to remain on a downward trend and to average 11.3% in 2019 and 10.8% in 2020, mainly due to stable local petroleum prices. It expected the CBN to maintain its policy rate at 13.5% over the remainder of 2019, but to continue with other unorthodox policies to stimulate lending growth. In addition, it considered that the CBN's net claims on the government increased to NGN3.2 trillion at the end of March 2019, which implies that authorities plan to reduce domestic- and foreign-currency debt issuances. It said that authorities are more likely to reduce the issuance of domestic debt due to concerns over high debt servicing costs, while it anticipated the government to issue at least $2.6bn in Eurobonds in the fourth quarter of 2019.

Source: Bank of America Merrill Lynch

GCC

Rising debt of government-related entities poses fiscal risks

Fitch Ratings indicated that the debt level of government-related entities (GREs) is a significant and expanding contingent liability for some governments in the Gulf Cooperation Council (GCC). It estimated that the debt of non-bank GREs ranged from 12% of GDP in Kuwait to 32% of GDP in Oman in 2018, while the debt of government-related banks, which consists mostly of wholesale or interbank funding, ranged from 9% of GDP in Bahrain to 39% of GDP in Qatar last year. In addition, it considered that the potential contingent liabilities from the banking system is more significant than from non-bank GREs, due to the large size of banking sectors in the GCC. Further, it said that the debt of non-bank GREs has been increasing in GCC countries that are facing fiscal pressures, as fiscal challenges limit the sovereigns' ability to make direct capital contributions to GREs. As a result, it noted that GREs had to resort to direct borrowing for financing. It added that the debt of non-bank GREs in Bahrain expanded by 15% of GDP in the 2015-18 period, while it increased by 8% of GDP in each of Oman and Saudi Arabia over the same period. In parallel, Fitch indicated that the impact of the growing contingent liabilities on the sovereign's credit worthiness is limited in Abu Dhabi, Qatar and Kuwait due to their high net official foreign assets and low net government debt. It also noted that the high standalone credit quality of some GREs, specifically national oil companies, mitigates the risk from the rise in contingent liabilities. However, it said that a large build-up or the materialization of GRE debt could weaken the balance sheet of GCC sovereigns, which could lead to negative rating actions.

Source: Fitch Ratings

SUDAN

Government formation likely to unlock concessional financing and debt relief

IHS Markit indicated that the formation of a new government in Sudan increases the country's prospects for an economic recovery, as it could allow Sudan to reach an agreement for debt relief and access concessional financing. It said that the U.S. will likely remove Sudan from its list of State Sponsors of Terrorism (SST) during the coming 12 months, following the fundamental change in the country's leadership and in case the new administration does not or will not support international terrorism. It noted that the removal of Sudan from the SST list would simplify the compliance processes for banks that have operations in the U.S. and Europe, as they would currently be prosecuted in the U.S. if they engage in business with the Sudanese government. Also, it pointed out that the delisting of Sudan would cancel the license requirements for specific U.S. exports to the country. In addition, IHS expected the removal of Sudan from the SST list to unblock foreign aid, enable the resumption of U.S. financial aid to Sudan, and give access to concessional debt from multilateral donors such as the World Bank and the International Monetary Fund. However, it anticipated Sudan to continue to rely on financial aid from Gulf Cooperation Council economies in the near term, especially from Saudi Arabia, as the country's delisting would likely take up to six months, and given that normalizing the country's relations with multilateral donors will take time.

Source: IHS Markit

IRAQ

Increasing debt burden constrains fiscal strength

In its periodic review of Iraq's sovereign ratings, Moody's Investors Service indicated that Iraq's 'Caa1' issuer rating reflects its "Moderate" economic strength, "Very Low" institutional strength, "Moderate" fiscal strength and "Very High" susceptibility to event risk. The ratings are seven notches below investment grade. The agency noted that Iraq's economic strength balances its strong growth potential given its large natural resource endowment and low competitiveness, with the significant loss of productive capacity and damage to infrastructure due to the armed conflict in previous years. Further, it said that Iraq's institutional strength is constrained by significant challenges, including low government effectiveness, weak rule of law and high levels of corruption. In parallel, the agency pointed out that its fiscal assessment reflects the government's weak fiscal metrics stemming from its rapidly increasing debt burden in the past five years, as well as the elevated share of debt denominated in foreign currency. Further, it said that Iraq's susceptibility to event risk is associated with domestic and geopolitical risks. On July 30, 2019, Moody's affirmed Iraq's long-term issuer and senior unsecured ratings at 'Caa1', and maintained a 'stable' outlook on the ratings. It noted that the ratings capture Iraq's weak institutions and governance that will continue to limit policy effectiveness, constrain the government's capacity to respond to domestic and external shocks, and weigh on the competitiveness of the economy.

Source: Moody's Investors Service

EGYPT

Sovereign ratings affirmed, outlook 'stable'

Capital Intelligence Ratings (CI) affirmed at 'B+' Egypt's long-term foreign- and local-currency sovereign ratings, and at 'B' the country's short-term foreign- and local-currency ratings, with a 'stable' outlook on the long-term ratings. It noted that the ratings are supported by the narrowing of the current account deficit, an adequate level of foreign currency reserves and improving public finances. But it said that the ratings are constrained by elevated unemployment and poverty rates, a weak budget structure, significant institutional challenges, and geopolitical risks. The agency indicated that the implementation of fiscal and economic reforms under the IMF program has increased economic growth, reduced inflationary pressures, and strengthened investor confidence in Egypt. It expected real GDP growth to average 6% annually in the fiscal years that end in June 2020 and in June 2021, supported by improved confidence, higher natural gas output and stronger activity in the tourism and construction sectors. Further, it forecast the average inflation rate to regress from 13.9% in FY2018/19 to 8.1% in FY2020/21. In parallel, it noted that foreign currency reserves increased from $42.6bn at end-2018 to $44.4bn at end-June 2019. In parallel, it forecast the fiscal deficit to narrow from 8.2% of GDP in FY2018/19 to about 5% of GDP by FY2020/21, in case of sustained fiscal consolidation measures. It projected the government's debt level to regress from 90.3% of GDP at end-June 2019 to about 77.5% of GDP at end-June 2022. But it anticipated near-term financing risks to remain high given the still wide fiscal deficit.

Source: Capital Intelligence Ratings

GCC

Banks' assets up 2% in second quarter of 2019

KAMCO indicated that the aggregate assets of 62 listed banks in the Gulf Cooperation Council (GCC) reached $2.2 trillion at the end of June 2019, and increased by 6.4% from a year earlier. It also noted that the banks' assets grew by 2.1% from end-March 2019, one of the largest quarterly growth rates on record, driven by a rise of 2.3% in the assets of conventional banks and an increase of 1.3% in those of Islamic banks. Further, it said that the banks' net loans stood at $1.4 trillion at the end of June 2019, constituting a growth of 5% from a year earlier. In parallel, it pointed out that aggregate deposits totaled $1.7 trillion at end-June 2019, and rose by 2.3% from end-March 2019, the highest quarterly growth rate in more than eight years, as well as by 5.7% from end-June 2018. As such, it noted that the banks' loans-to-deposits ratio regressed from 81% at end-June 2018 to 80.4% at the end of June 2019. In parallel, it said that the banks' net interest income grew by a marginal 0.6% quarter-on-quarter to $14.3bn in the second quarter of 2019, while their non-interest income was nearly unchanged at $6bn in the covered quarter. As such, it indicated that the banks' revenues reached $20.3bn in the second quarter of the year and grew by 0.5% from the previous quarter. In addition, it noted that the net interest margin of GCC banks slightly declined from 3.16% in the first quarter of 2019 to 3.13% in the second quarter of 2019. Further, it noted that the GCC banks' cost-to-income ratio regressed from 37.7% in the first quarter of 2019 to 37.1% in the second quarter of the year.

Source: KAMCO

ARMENIA

Bank ratings upgraded on improved operating environment

Moody's Investors Service upgraded from 'B2' to 'B1' the long-term foreign-currency deposit ratings of Ameriabank, Ardshinbank, Armeconombank, Converse Bank, Inecobank and VTB Bank Armenia. Also, it upgraded from 'b1' to 'ba3' the baseline credit assessments (BCAs) of Ameriabank, Ardshinbank and Inecobank, and from 'b2' to 'b1' the BCAs of Armeconombank and Converse Bank, while it affirmed at 'b3' the BCA of VTB Bank. It revised from 'positive' to 'stable' the outlook on the ratings of Ameriabank, Ardshinbank and Converse Bank, while it maintained the 'stable' outlook on the ratings of the remaining three banks. The agency noted that the banks' upgrades follow its similar action on the sovereign and reflect the improving operating environment for Armenian banks, as well as the banks' strengthened solvency metrics. It said that the five banks' BCAs are constrained by high foreign-currency loans on their balance sheets. It indicated that Ameriabank's BCA is supported by its strong asset quality metrics, robust capitalization and diversified funding base. It added that Ardshinbank's BCA reflects the bank's declining problem loan ratio, improving profitability and stronger capital position. It noted that Inecobank's BCA is driven by its strong loss-absorption capacity, stable funding and ample liquidity. Further, it said that Armeconombank's BCA reflects the bank's low level of problem loans, strengthened capital buffers and solid liquidity. It added that Converse Bank's BCA is underpinned by its solid capital buffers, diversified funding and liquidity profiles.

Source: Moody's Investors Service

IRAQ

Central Bank makes ratings mandatory for banks to conduct specific operations

The Central Bank of Iraq (CBI) announced in August 2019 that banks operating in Iraq need to be rated in order to conduct three specific financial operations. First, it indicated that the rating is mandatory for banks that want to issue letters of credit for the export of crude oil through Iraq's State Organization for the Marketing of Oil (SOMO). Second, it noted that only rated banks are allowed to open documentary credits for the government of up to $50m. Third, it said that rated banks will be able to issue and accept letters of guarantee for government entities. It noted that the decision will come into effect in 2020. In parallel, the CBI indicated that qualified rating agencies are the agencies that are recognized as External Credit Assessment Institutions under Basel standards. It said that qualified rating agencies are S&P Global Ratings, Fitch Ratings, Moody's Investors Service and Capital Intelligence Ratings. It added that it will assess the eligibility of other rating agencies on demand. The CBI pointed out that this decision is part of its efforts to improve the performance of the Iraqi banking sector, as well as to meet international standards and regulate the banking sector's products and services according to their credit risks. S&P Global Ratings, Fitch Ratings and Moody's Investors Service currently rate the Iraqi sovereign.

Source: Central Bank of Iraq, Byblos Research

TURKEY

Central Bank measures reduce banks' funding cost

The Institute of International Finance indicated that the Central Bank of the Republic of Turkey's (CBRT) recent measures to support bank lending have reduced the banks' funding costs. It noted that the CBRT reduced the key interest rate to 19.75% in late July, and lowered the reserve requirements for banks that meet specific criteria, among other measures. It said that lower funding costs allowed the banks to reduce their lending rates from 28% in early July 2019 to 15% in early September. It expected the drop in the domestic funding costs to support the banks' profitability in the near term, given the maturity mismatch between the banks' funding and lending. It also noted that the cost of the banks' foreign funding could decrease in case of further monetary policy easing by global central banks, which would support the banks' profitability as well as their external debt rollover rates. It pointed out that banks have reduced their short-term external debt from a recent peak of $73bn at end-April 2018 to $58bn at end-June 2019, which lowered the amount of short-term external liabilities that need frequent rollover. In parallel, the IIF indicated that banks have been reluctant to lend due to heightened concerns about their asset quality given subdued economic activity and the sharp depreciation of the Turkish lira. It said that the banks' efforts to clean up their balance sheets from problematic loans to energy and construction sector, which have been constraining lending activity, could result in higher NPLs in the near term. It considered that lending activity could accelerate and support economic activity in case banks successfully address problematic loans without depleting their capital buffers. However, it said that higher credit growth would require larger external borrowing by banks.

Source: Institute of International Finance

ENERGY / COMMODITIES

Global gas market to be oversupplied in 2020

The U.S. NYMEX natural gas Henry Hub prices averaged $2.58 per million British thermal unit (Btu) in the first eight months of 2019, constituting a drop of 9.4% from $2.84 per million Btu in the same period of 2018. The decline in prices is due to a record high production of U.S. natural gas, despite elevated natural gas exports and increased consumption in the U.S. power generation sector. Goldman Sachs indicated that U.S. natural gas production grew by 2.2 billion cubic feet per day in August 2019, constituting the largest month-on-month increase so far this year. It projected the NYMEX natural gas Henry Hub prices to average $2.5 per million Btu in 2020, compared to an earlier forecast of $2.75 per million Btu due to expectations of persistently high output and a slowdown in U.S. demand for gas. Further, it projected an oversupply in the global gas market in 2020, driven by an oversupply in the European gas markets, as well as in the global Liquefied Natural Gas (LNG) market. In this context, it indicated that gas inventories in Northwestern Europe reached record-high levels during the summer season. It added that global LNG supply has outperformed expectations since May 2019, driven by higher output from Algeria, Malaysia and the U.S., which more than offset the lower output from Australia and Trinidad & Tobago. On the demand side, it noted that Asia's demand for LNG underperformed projections so far in 2019 due to weaker demand in China, the world's second largest LNG importer.

Source: Goldman Sachs, Refinitiv, Oilprice, Byblos Research

OPEC oil output nearly unchanged in August 2019

Oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 29.7 million barrels per day (b/d) in August 2019, up by 0.5% from an average of 29.6 million b/d in the preceding month. Saudi Arabia produced 9.8 million b/d in August 2019, or 33% of OPEC's total oil output, followed by Iraq with 4.78 million b/d (16.1%), the UAE with 3.09 million b/d (10.4%), Kuwait with 2.65 million b/d (8.9%), and Iran with 2.19 million b/d (7.4%).

Source: OPEC, Byblos Research

Iraq to drill new oil & gas wells in Naseriya oil field

Iraq's Ministry of Oil indicated that it plans to drill 20 new oil and gas wells in the southern oil field of Naseriya. It noted that the $128m project will extend over a period of two years. It expected the new wells to increase the Naseriya oil field's current crude oil output by about 40,000 barrels per day (b/d) to 200,000 b/d. It also anticipated the project to expand the field's gas production by 20 million cubic feet to 100 million cubic feet per day, which will be used in electricity generation. Iraq is currently OPEC's second largest oil producer, with total output of 4.78 million b/d, or 16.1% of OPEC's total crude oil production.

Source: Iraq Ministry of Oil, Byblos Research

OPEC's oil basket price down 8% in August 2019

The price of the reference basket of the Organization of Petroleum Exporting Countries averaged $59.6 per barrel (p/b) in August 2019, constituting a drop of 7.9% from $64.7 p/b in the preceding month. Angola's Girassol posted a price of $61.6 p/b, followed by Saudi Arabia's Arab light at $60.84 p/b and Equatorial Guinea's Zafiro at $60.81 p/b. In parallel, the 14 prices included in the OPEC reference basket posted monthly declines between $4.3 p/b and $12.7 p/b in August 2019.

Source: OPEC, Byblos Research

Base Metals: Nickel prices to increase to $20,000 per ton in coming three months

The LME cash price of nickel reached $18,128 per metric ton on September 10, 2019, its highest level in five years, and constituting an increase of 71% from $10,605 per ton at the end of 2018. The metal's price continued to rise this year despite the ongoing global trade tensions, which have been weighing on the prices of other base metals. In fact, nickel prices surged by 43.7% from end-June 2019, due to heightened concerns about supply disruptions from Indonesia, the world's largest nickel producer. Indonesia announced on September 1 that it will effectively stop nickel ore exports as of January 1, 2020, which is two years earlier than initially planned. In addition, the surge in prices was driven by concerns of short-term supply of the metal, as LME-registered nickel stocks stand at a low level. Also, demand for nickel has been increasing due to investors' rising expectations of a market shift to electric vehicles (EVs), in which nickel is a key ingredient. Goldman Sachs indicated that Indonesia's export ban will create a substantial supply uncertainty in the market and will lead to a 10% decline in global nickel supply. As such, it projected nickel prices to reach $20,000 per ton in the next three months, but it forecast prices to regress to $18,000 in six months and to $16,000 in 12 months, as supply and demand adjust to higher prices.

Source: Goldman Sachs, Refinitiv, Byblos Research

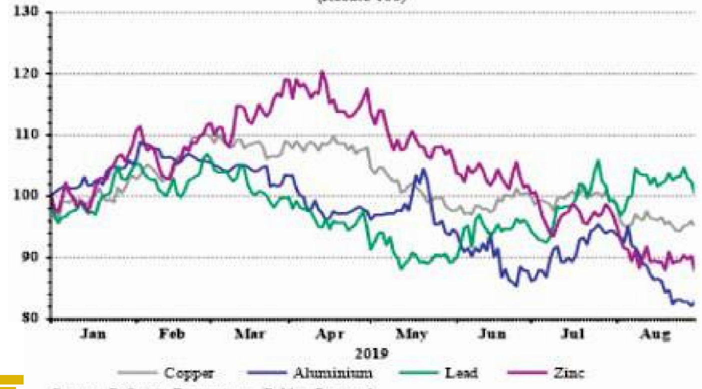
Precious Metals: Gold prices to increase by 10% to $1,400 per ounce in 2019

Gold prices averaged $1,345 per troy ounce in the first eight months of 2019, constituting a rise of 4.1% from $1,293 an ounce in the same period of 2018. They also increased from an average of $1,361 an ounce in June 2019 to $1,414 an ounce in July and to $1,502 an ounce in August 2019. The surge in prices was driven by the easing of U.S. monetary policy, persistent U.S.-China trade tensions, as well as the continued purchase of the metal by central banks worldwide. BNP Paribas projected gold prices to average $1,510 per ounce in the fourth quarter of 2019 and $1,600 an ounce in the first quarter of 2020. It forecast the metal's price to rise by 10.3% to an average of $1,400 per ounce in 2019, and to reach an average of $1,560 an ounce in 2020, reflecting its expectation of four U.S. interest rate cuts between September 2019 and June 2020. It expected trade tensions between the U.S. and China to persist in the near term, which would also be supportive of the metal's price. Further, it anticipated that average gold prices could exceed $1,560 per ounce in 2020 in case the U.S. pursues a more aggressive monetary easing.

Source: Refinitiv, BNP Paribas, Byblos Research

Price Performance of Base Metals in First Eight Months of 2019

(Rebase 100)



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- Negative	B3 Stable	B Negative	- -	B- Stable	2.4	88.1	45.7**	50.5	26.7	102.2	1.3	1
Egypt	B Stable	B2 Stable	B+ Stable	B+ Stable	B+ Positive	-9.5	92.6	37.1	51.8	45	115.4	-2.4	3
Ethiopia	B Stable	B1 Stable	B Stable	-	B+ Stable	-3	61.1	31.8**	27.2	3.6	146.2	-6.5	4.1
Ghana	B Stable	B3 Stable	B Stable	- -	BB- Stable	-7	59.6	27.9**	38.9	31.9	121.8	-3.2	6
Ivory Coast	- -	B3 Stable	B+ Stable	- -	B+ Stable	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	- -	- -	- -	- -	B- Stable	-7.4	-	-	-	-	-	2	-
Dem Rep Congo	CCC+ Stable	Caa1 Stable	- -	- -	CCC Stable	-0.5	15.7	12.9**	4.4	3	104.1	-0.5	2.8
Morocco	BBB- Negative	Ba1 Stable	BBB- Stable	- -	BBB Stable	-3.7	65.2*	33.2	30.6	7.4	93	-4.5	2.1
Nigeria	B Stable	B2 Stable	B+ Stable	- -	BB- 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 Negative	B+ Negative	- -	BB- Negative	-4.6	77	83.1	-	-	-	-11.2	-
Burkina Faso	B Stable	- -	- -	- -	B+ Stable	-4.7	43	23.8**	21	4.6	145.4	-7.5	2.8
Rwanda	B+ Stable	B2 Stable	B+ Stable	- -	B+ Stable	-2.6	40.7	40.1**	13.2	5.1	102.8	-7.8	2.9
Middle East													
Bahrain	B+ Stable	B2 Stable	BB- Stable	BB Negative	BB+ Stable	-8.4	100.2	189.9	201.7	22.3	327.6	-3.6	0.4
Iran	- -	- -	- -	B Stable	BB- Negative	-4.1	30.0	2.0	-	-	-	-0.4	-
Iraq	B- Stable	Caa1 Stable	B- Stable	- -	CC+ Stable	-5.2	50.2	32.1	3.7	2.2	100.9	-6.7	1.0
Jordan	B+ Stable	B1 Stable	BB- Stable	B+ Stable	BB+ Stable	-4.0	94.8	72.1	63.6	9.4	151.0	-8.2	4.5
Kuwait	AA Stable	Aa2 Stable	AA Stable	AA- Stable	AA- Stable	9.5	17.8	45.8	32.8	0.55	87.9	7.4	-5.5
Lebanon	B- Negative	Caa1 Stable	CCC -	B Negative	B- Negative	-11.7	157.8	191.3	136.8	50.1	136.2	-28.2	2.8
Oman	BB Negative	Ba1 Negative	BB+ Stable	BBB- Stable	BBB- Negative	-9.9	61.3	99.6	44.9	4.5	140.3	-8.7	1.5
Qatar	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	A+ Stable	6.1	52.7	106.7	60.9	3.4	173.9	4.6	-1.0
Saudi Arabia	A- Stable	A1 Stable	A+ Stable	A+ Stable	AA- Stable	-7.9	23.7	30.4	8.0	1.2	36.9	3.5	0.3
Syria	- -	- -	- -	- -	C Stable	-	-	-	-	-	-	-	-
UAE	- -	Aa2 Stable	- -	AA- Stable	AA- 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		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	12-Sep-19	No change	24-Oct-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	12-Sep-19	No change	05-Nov-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	16.50	12-Sep-19	Cut 325bps	24-Oct-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	5.50	10-Sep-19	Cut 25bps	29-Oct-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	9.25	09-Sep-19	Raised 25bps	28-Oct-19
Ukraine	Discount Rate	16.50	05-Sep-19	Cut 50bps	24-Oct-19
Russia	Refi Rate	7.00	06-Sep-19	Cut 25bps	25-Oct-19

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (+961) 1 338 100
Fax: (+961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island – Sky Tower – Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293