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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Private equity real estate deals at $98bn in third quarter of 2019

Research provider Preqin indicated that there were 2,044 private equity real estate deals completed globally in the third quarter of 2019 for a total amount of $98.1bn. In comparison, there were 2,410 private equity real estate transactions worth $119.7bn in the third quarter of 2018, and 2,407 real estate deals for $98bn in the second quarter of 2019. On a regional level, North America attracted 1,428 real estate transactions in the third quarter of 2019, or 70% of total deals, followed by Europe with 525 real estate transactions (25.7%), and Asia with 25 deals (1.2%). In addition, transactions for office property accounted for the largest share of activity in the third quarter of the year with 511 deals, or the equivalent of 25% of total private equity deals in real estate. They were followed by residential units with 502 transactions (24.6%), industrial properties with 315 deals (15.4%), retail properties with 266 transactions (13%), and land with 175 deals (8.6%). In parallel, Preqin indicated that 48 closed-end private equity real estate investment funds raised a total of $37bn in capital commitments worldwide in the third quarter of 2019. In comparison, 96 funds raised $32bn in capital in the third quarter of 2018. Also, it said that 28 PE real estate funds with a primary focus on North America secured $28.3bn in the third quarter of 2019, or 76.2% of total capital commitments, followed by 10 European-focused funds ($5.9bn), and seven Asian-focused fund ($2.7bn).
Source: Preqin

Global FDI flows up 24% to $640bn in first half

The United Nations Conference on Trade & Development (UNCTAD) indicated that global foreign direct investment (FDI) flows totaled $640bn in the first half of 2019, constituting an increase of 24% from $517bn in the same period of 2018. It attributed the sharp increase in global FDI flows in the first half of 2019 to the unusually low level of global FDI in the same period 2018. It noted that U.S. tax reforms in 2017 prompted U.S. multinationals to repatriate their accumulated overseas earnings rather than reinvesting them, which led to negative flows from developed economies in the first half of 2018. It said that FDI inflows to developing countries stood at $342bn in the first half of 2019, or 53.4% of global FDI flows, followed by inflows to developed economies with $269bn (42%), and to transition economies with $28bn (4.4%). It said that FDI inflows to developed economies rose by 1.9 times annually in the first half of 2019, supported by a recovery in FDI inflows to Europe, which was the most affected region by the repatriation of earnings in 2018. It added that FDI inflows to transition economies increased by 4% in the first half of 2019, while inflows to developing countries declined by 2% year-on-year. Further, UNCTAD projected global FDI flows to rise by 5% to 10% in 2019, supported by the sustained recovery in FDI inflows to developed economies. It considered that weaker global economic activity and ongoing trade tensions constitute the main risks to FDI flows. In parallel, it noted that the amount of cross-border merger & acquisitions declined by 19% to $303bn in the first half of 2019, but remained well above their average level of the past 10 years.
Source: UNCTAD

EMERGING MARKETS

External debt stock up 5% to $8 trillion at end-2018

The World Bank indicated that the total external debt level of low- and middle-income countries, which includes long- & short-term external debt and the use of IMF credit lines, stood at $7.8 trillion at the end of 2018, or 26% of aggregate GDP, constituting a rise of 5.2% from $7.4 trillion at end-2017. It noted that the long-term external debt of low- and middle-income, which consists of public & publicly guaranteed debt and private sector not guaranteed debt, reached $5.5 trillion at end-2018, up by 2.4% from $5.4 trillion at end-2017, and was equivalent to 70.5% of total external debt. Further, it said that the short-term external debt of low- and middle-income countries increased by 12% to $2.2 trillion at end-2018, and was equivalent to 27.6% of the total, while the use of IMF credit lines in such economies increased by 21.8% from end-2017 to $151bn at end-2018, and represented 1.9% of the total. In addition, it indicated that the ratio of external debt-to-exports of low- and middle-income countries regressed from 105% in 2017 to 101% in 2018, while the reserves-to-external debt ratio declined from 79% at end-2017 to 74% at end-2018. On a regional basis, it pointed out that the external debt level of East Asia & Pacific was at $2.8 trillion at end-2018, or 35.6% of the total, followed by Latin America & the Caribbean with $1.9 trillion (23.9%), Europe & Central Asia with $1.5 trillion (19.5%), South Asia $730bn (9.3%), Sub-Saharan Africa with $583bn (7.5%), and the Middle East & North Africa region $321bn (4.1%).
Source: World Bank

GCC

Fixed income issuance at $118bn in first 10 months

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $118bn in the first 10 months of 2019, constituting an increase of 19.6% from $98.6bn in the same period of 2018. Aggregate fixed income in the covered period consisted of $47.5bn in sovereign bonds, or 40.3% of the total, followed by corporate bonds at $36.2bn (30.7%), sovereign sukuk at $23bn (19.5%), and corporate sukuk at $11.2bn (9.5%). Aggregate bonds and sukuk issued by GCC sovereigns reached $70.5bn in the first 10 months of 2019, while bonds and sukuk issued by GCC corporates amounted to $47.4bn. On a monthly basis, GCC sovereigns issued $13.2bn in bonds and sukuk in January, $2.9bn in February, $15.3bn in March, $7.4bn in April, $0.2bn in May, $4.1bn in June, $4.4bn in July, $5.2bn in August, $13.9bn in September, and $3.9bn in October 2019. In parallel, companies in the GCC issued $1.9bn in bonds and sukuk in January, $2.4bn in February, $4.4bn in March, $15.4bn in April, $4.2bn in May, $1.2bn in June, $4.2bn in July, $3bn in August, $4.4bn in September, and $6.3bn in October 2019. Sovereign issuance in October consisted of $3bn in sukuk issued by Saudi Arabia, $750m in sukuk issued by the UAE, as well as $136.5m in bonds and $54.6m in sukuk issued by Qatar. Also, corporate issuance in October included $1.1bn in each of sukuk and bonds issued by UAE-based companies, $1bn in bonds and $600m in sukuk issued by Saudi Arabia-based firms, as well as $500m in bonds issued by Kuwait-based corporates, and $152m in bonds issued by Qatar-based companies.
Source: KAMCO

POLITICAL RISK OVERVIEW - October 2019

DEM REP CONGO

The leader of the armed group Cooperative for Development of Congo (CODECO) and about 500 fighters moved to the Djugu territory in the Ituri province with the intention to surrender their arms. However, despite ongoing peace talks with provincial authorities, CODECO-inflicted violence escalated in the Djugu territory, which prompted security forces to launch an attack against CODECO. In parallel, the army conducted a major offensive against the Islamist armed group Allied Democratic Forces in Beni territory in the Northeast. A plane carrying presidential staff crashed in the province of Sankuru killing all passengers on board. Supporters of President Félix Tshisekedi's Union for Democracy and Social Progress party demonstrated in several cities, holding the party of former President Joseph Kabila responsible for the crash.

ETHIOPIA

Nationwide protests against Prime Minister Abiy Ahmed erupted on October 23, after activist and media entrepreneur Jawar Mohammed accused security forces of plotting an attack on him. Protests turned violent and sparked inter-ethnic attacks, leaving more than 78 dead. Prime Minister Abiy had won a Nobel Peace Prize on October 11 for his efforts to resolve his country's conflict with Eritrea. In parallel, tensions heightened between Egypt and Ethiopia over the construction of the Grand Ethiopian Renaissance Dam on the Nile River. The leaders of the two countries met in Russia during the Africa-Russia summit that was held on October 23 and 24, and they agreed to resume talks.

IRAN

President Hassan Rouhani reiterated that resuming the negotiations between the U.S. and Iran is contingent on the lifting of U.S. sanctions on Iran and returning to the nuclear deal. Tensions between Iran and the UAE eased as the latter released $700m of Iranian funds. Pakistan tried to mediate between Iran and Saudi Arabia, at the request of U.S. President Donald Trump, in order to ease tensions between the two countries. Two explosions damaged an Iranian tanker in the Red Sea off the Saudi coast. The Iranian government denied news that the U.S. carried out a cyber-attack on Iran.

IRAQ

Protests erupted in Baghdad and southern provinces against the government, leading to a violent crackdown on protesters, which left at least 250 dead and 8,000 wounded. Protesters called for jobs, improved public services and the end of corruption. Prime Minister Adel Abdul Mahdi announced measures including a Cabinet reshuffle, punishment of corrupt officials, and job creation schemes. Shiite cleric Moqtada al-Sadr expressed support for the protests and called on the government to resign. The United States renewed the sanctions waiver for Iraq, which allows the country to continue to import electricity and gas from Iran for 120 more days. Washington said that the U.S. forces that withdrew from Syria will be redeployed to western Iraq, while the Iraqi government said that U.S. troops did not have permission to redeploy.

LIBYA

The Libyan National Army (LNA) intensified its airstrikes on forces aligned with the UN-backed government of National Accord (GNA), as it pursued its campaign to capture the capital city of Tripoli. The LNA carried an attack on strategic GNA positions, including the Misrata airport and a large weapons depot in Misrata. Also, the GNA-backed forces launched an offensive on an LNA stronghold in the northern city of Tarhunah, and attacked the LNA in southern Tripoli. United Nations envoy Ghassan Salamé maintained his diplomatic efforts to pressure foreign leaders supporting the opposing parties in Libya to commit to a ceasefire.

SUDAN

The government and rebel groups initiated peace talks in South Sudan. Negotiations reached a deadlock after the rebel group Sudan People's Liberation Movement-North (SPLM-N) accused authorities of violating the imposed ceasefire. In response, the Chairman of the Sovereign Council, General Abdel-Fattah Burhan, imposed a ceasefire to all parties in war zones across the country, prompting the SPLM-N to rejoin the talks. The two parties agreed on an outline for the peace agenda, and to allow aid to rebel-held areas. Authorities also extended a nationwide state of emergency by another three months. Sudan and South Sudan signed an agreement that stipulates the full delimitation of the boundaries between the two countries.

SYRIA

The U.S. withdrew from Northern Syria, while Turkey launched an offensive against the Kurdish-led People's Protection Units (YPG). The Kurdish-led Syrian Democratic Forces (SDF) allowed a limited deployment of regime forces in YPG-held areas to help repel the Turkish incursion. Ankara agreed with Russia to give the YPG until October 29 to retreat 30 kilometers from the Turkish border between Manbij and the Iraqi border. The U.S. said it would deploy forces in east Syria to protect oil fields under SDF control. Clashes erupted between Syrian troops and Turkish-backed rebels near Ras al-Ayn in the safe zone. Russia and the Syrian regime continued their attacks on rebels in Idlib. The U.S. indicated that it killed ISIS leader Abu Bakr al-Baghdadi in Barisha, in the Idlib province.

TUNISIA

Kaïs Saïed, a constitutional law professor with no political affiliation, won the second round of presidential elections that was held on October 13 with 72.7% of votes. He defeated media entrepreneur Nabil Karoui, who was in prison but was freed on October 9, which gave him a few days to campaign. Mr. Saïed was sworn in as president on October 23. In parallel, the moderate Islamist party An-Nahda won the largest number of seats in Parliament in the October 6 legislative elections. The party launched consultations with several parties and members in Parliament to form a majority and then to designate a prime minister.

TURKEY

Turkish forces launched a military operation against the Kurdish-led People's Protection Units (YPG) in the northeast of Syria. The operation aimed to push the YPG away from the border area and establish a safe zone to resettle Syrian refugees. The U.S. imposed sanctions on Turkey in order to halt the incursion, while several European states and Canada suspended arms exports to Turkey. As at end-October, Turkish forces and their Sunni rebel proxies controlled 140 kilometers along the borders from the west of Tel Abyad to Ras al-Ayn. In parallel, military operations against the Kurdistan Workers' Party in northern Iraq continued. Turkey condemned the U.S. House of Representatives' resolution that recognizes the Armenian genocide in the Ottoman Empire.

YEMEN

Saudi Arabia limited its airstrikes on Huthi rebels following the latter's declaration in September of a unilateral ceasefire. The Hadi government allowed eight fuel shipments to enter the Huthi-administered port of Hodeida, reportedly at the request of Saudi Arabia. The government and the UAE-backed Southern Transitional Council (STC) started negotiations to sign the Riyadh Agreement. The agreement would allow the parties to have equal representation in the government, and would unify all military formations under the authority of the Ministries of Interior & Defense. But fighting between the government and STC forces in the Abyan province on October 31 prompted the two parties to postpone the signing of the agreement.

Source: International Crisis Group, Newswires

OUTLOOK

MENA

Non-resident capital inflows to rise by 21% to $200bn in 2019

The Institute of International Finance projected total non-resident capital inflows to the Middle East & North Africa (MENA) region to increase by 20.8% from $165.4bn in 2018 to $199.7bn in 2019. It attributed the rise in MENA capital inflows largely to higher portfolio equity flows to Saudi Arabia following the inclusion of the Kingdom's stocks in the MSCI Emerging Markets Index. In addition, it anticipated Eurobond issuance in the region to remain elevated, amid declining interest rates, low global oil prices and large fiscal financing needs. As such, it expected portfolio inflows to the region to grow by 46.3% from $55.1bn in 2018 to $80.6bn in 2019. Further, it forecast FDI inflows to expand by 19.4% from $36.5bn in 2018 to $43.6bn in 2019, supported by reforms in several countries across the region. However, it noted that FDI inflows remain subdued amid weakening economic fundamentals and rising political tensions. It projected non-resident capital inflows to moderate to $172.8bn in 2020, as it expected a decrease of 13.4% in portfolio inflows amid lower equity flows and a decline of 26.6% in other investment inflows, mainly banking-related flows.

In parallel, the IIF forecast non-resident capital inflows to the MENA region's oil importers to decline from $50bn in 2018 to $43bn this year and $39.8bn in 2020, in part due to challenging political conditions. It anticipated portfolio flows to oil importers to decrease by 59.2% to $3.9bn in 2019, and for FDI inflows to regress by 12.5% to $15bn this year. It projected other investment inflows to the region's oil importers to grow by 3.5% to $24.1bn in 2019. Further, it forecast non-resident capital inflows to the region's oil exporters to increase from $115.4bn in 2018 to $156.7bn in 2019 and to moderate to $133bn in 2020. It projected portfolio inflows to oil exporters to grow by 68.4% to $76.7bn in 2019, and for FDI inflows to increase by 47.4% to $28.6bn 2019. It anticipated other investment inflows to oil exporters to expand by 2% to $51.4bn in 2019. Further, the IIF forecast resident capital outflows from the MENA region to decline from $260bn in 2018 to $251.5bn in 2019. It noted that resident capital outflows continue to be driven by foreign investments made by the GCC countries' sovereign wealth funds.

Source: Institute of International Finance

AFRICA

Growth to average 3.2% annually in 2020-21

The World Bank projected economic growth in Sub-Saharan Africa (SSA) at 2.6% in 2019, nearly unchanged from 2.5% in 2018, but down from a forecast of 2.8% in April 2019. It attributed the subdued recovery in economic activity to a slowdown in fixed investments and net exports amid heightened policy uncertainty, weak agricultural output, as well as a moderate expansion in the manufacturing and mining industries due to poor energy supply in some countries. It added that economic activity continues to be weak in Angola, Nigeria and South Africa, the region's largest resource-intensive economies, while growth slowed down in several non-resource-intensive countries in the region. Further, it expected SSA's economic growth to pick up to an average of 3.15% annually during the 2020-21 period, in case of a gradual recovery in investments and stronger domestic demand. It projected growth in resource-intensive economies at 2% annually in the 2020-21 period amid the continued slow recovery of the region's large economies. It expected economic activity in Nigeria to grow by 2.1% in the 2020-21 period if the weak macroeconomic policy environment persists. It forecast Angola's growth to rebound to 2.45% annually in the 2020-21 period, in case new investments in the hydrocarbon sector materialize.

In parallel, the World Bank projected real GDP growth in SSA's non-resource-intensive economies to average 5% annually in the 2020-21 period. It attributed the pick-up in activity in part to robust growth in the economies of the West African Economic & Monetary Union and the East Africa region. However, it noted that the outlook for non-resource-intensive countries is contingent on conducting fiscal consolidation in order to ease debt vulnerabilities, as well as on the implementation of structural reforms. Further, it considered that the SSA region's outlook is subject to significant external downside risks, such as weaker-than-expected global growth, tighter global financing conditions, and higher commodity price volatility. It added that domestic risks include adverse weather conditions, weak fiscal consolidation and reforms, as well as security threats.

Source: World Bank

EGYPT

Monetary easing cycle to support growth

Deutsche Bank projected Egypt's real GDP growth to accelerate from 5.6% in the fiscal year that ended in June 2019 to 5.9% in FY2019/20, driven by higher investments and by the gradual recovery in private consumption. It noted that the inflation rate regressed significantly from 14.4% in June 2018 to 9.4% in June 2019, and expected the inflation rate to further decline to 8.1% in June 2020, supported by favorable statistical base effects, the appreciation of the Egyptian pound, and still weak private consumption. It anticipated the exchange rate to gradually appreciate from about EGP16.3 against the US dollar currently to EGP16.1 per dollar at the end of 2019 and to EGP16 per dollar at end-March 2019, due to rising portfolio inflows. But it noted that a prolonged period of social unrest could weigh on investor confidence, on portfolio inflows and, in turn, on the exchange rate. It added that a deterioration of security conditions in the country would weigh on tourism activity, disrupt FDI inflows and, in turn, weigh on the external sector.

Further, it considered that the local and external backdrops remain supportive to the Central Bank of Egypt's (CBE) monetary easing cycle. It noted that, in September 2019, the CBE cut the overnight deposit rate, the overnight lending rate, and the rate of its main operation by 100 basis points to 13.25%, 14.25% and 13.75%, respectively. It said that the easing cycle could support the pound and could channel portfolio inflows to longer dated sovereign debt instruments. It expected the CBE to further cut its policy rates by 100 basis points to 150 basis points in November. It considered that lower interest rates would also sustain the acceleration in economic activity. It added that lower rates would help reduce debt-servicing cost, which is the major driver of the wide fiscal deficit. As such, it expected the fiscal deficit to narrow from 8.6% of GDP in FY2018/19 to 7.8% of GDP in FY2019/20. It also estimated the public debt level to decline from 98% of GDP at the end of 2019 to 95% of GDP by end-2020.

Source: Deutsche Bank

GCC

Fiscal balances to weaken amid lower oil prices

Fitch Ratings expected fiscal balances to weaken across most of the Gulf Cooperation Council (GCC) countries in 2019 and 2020 due to lower oil prices and higher public spending, which would maintain the pressure on their sovereign and external balance sheets. It projected most GCC fiscal balances to deteriorate by one percentage point of GDP to two percentage points of GDP in 2019, in case Brent oil prices average $65 per barrel (p/b) this year. It noted that Bahrain would register the only improvement in its fiscal balance among GCC countries this year due to fiscal consolidation efforts. It indicated that all GCC countries, except Qatar, are committed to the OPEC production cut agreement until the first quarter of 2020, which, along with lower oil prices, are putting pressure on hydrocarbon revenues. It considered that GCC governments implemented structural reforms this year, such as the value-added tax in Bahrain, the excise tax in Oman and Qatar, as well as the increase in taxes and levies in Saudi Arabia. But it noted that these reforms would only partially offset lower oil prices and higher spending. It anticipated that the fiscal breakeven oil prices in Bahrain, Oman and Saudi will remain above $80 p/b in 2019-20. It considered that GCC governments need to implement additional fiscal measures to avoid a further deterioration in their fiscal balances in 2020 amid lower oil prices and a potential extension of output cuts. Further, it expected the governments to issue sovereign debt and to draw down their foreign assets to cover their fiscal deficits, which would continue to increase the public debt and deplete sovereign net foreign assets.
Source: Fitch Ratings

UAE

Growth to recover to 2.5% in 2020 on increased public spending and fiscal stimulus

The International Monetary Fund indicated that economic activity in the UAE is recovering following challenging conditions in previous years. It expected real GDP growth to reach 2.5% in 2020, with non-hydrocarbon sector activity accelerating by about 3%, the fastest rate since 2016, due to the government's fiscal stimulus and higher public spending in the run-up to Expo 2020. It said that the government's key priorities are to sustain the growth momentum beyond 2020 and to diversify the economy by promoting private sector development, as well as by strengthening the fiscal framework. It indicated that authorities have already taken several steps to support the non-oil private sector, including the adoption of a foreign direct investment law that allows a 100% foreign ownership of companies in selected sectors, as well as the reduction or elimination of some fees and penalties. Also, the Fund welcomed the authorities' efforts to introduce a comprehensive national development strategy for small- and medium- sized enterprises, and encouraged them to lower startup costs, to implement the new insolvency framework, and to increase access to financing. In parallel, it indicated that authorities should reduce the involvement of government-related entities (GREs) in non-strategic sectors to promote competition. Further, the Fund called on authorities to monitor GRE-related contingent liabilities, and to establish independent and experienced fiscal councils in order to provide impartial advice on economic conditions and ensure the proper implementation of the fiscal framework.
Source: International Monetary Fund

SAUDI ARABIA

Fiscal deficit to reach 4.7% of GDP in 2019

Jadwa Investment indicated that Saudi Arabia's fiscal deficit reached SAR37.8bn, or $10bn, equivalent to 1.4% of GDP, in the first nine months of 2019, relative to SAR48.9bn, or $13bn (1.7% of GDP), in the same period of 2018. It attributed the deficit in the covered period mainly to a deficit of SAR32.2bn, or $8.6bn, in the third quarter of 2019. It noted that the government's revenues declined by 7% year-on-year to SAR207bn, or $55.2bn, in the third quarter of 2019, mainly due to a 14% decrease in oil revenues to SAR132bn, or $35.2bn, which was partly offset by a 9% increase in non-hydrocarbon receipts. It pointed out that revenues from the tax on goods and services rose by 22% year-on-year to SAR37.6bn in the covered quarter of 2019, as expatriates' monthly dependency fees grew from SAR200 per dependent to SAR300 per dependent since mid-2019. In parallel, it indicated that the government's expenditures increased by 4% year-on-year to SAR239.4bn, or $63.7bn, in the third quarter of 2019. It pointed out that the compensation of public-sector employees grew by 11% to SAR121.3bn in the covered quarter and accounted for 50% of total spending. It indicated that capital expenditures declined by 13% to SAR31.4bn, or $8.4bn, in the third quarter. Overall, it expected the fiscal deficit at SAR93bn, or $24.8bn, in the fourth quarter of 2019, in line with the Ministry of Finance's fiscal deficit target of SAR131bn, or $34.9bn, equivalent to 4.7% of GDP in 2019. It noted that the Kingdom issued SAR115bn in debt in the first nine months of 2019 that consisted of 56% in domestic debt and 44% in international debt.
Source: Jadwa Investment

ARMENIA

External vulnerabilities persist despite better economic activity

Barclays Capital indicated that Armenia's real GDP growth reached 6.9% year-on-year in the first half of 2019, relative to 5.2% in full year 2018, supported by strong consumer spending and a slight increase in exports. Still, it said that the current account deficit reached 9.5% of GDP in the second quarter of 2019, despite the narrowing of the trade deficit, which exposes the country to external shocks. It noted that foreign currency reserves are very low, and that foreign direct investments are not increasing. However, it said that Armenia's three-year $248m agreement with the IMF and the partnership with the World Bank, which could unlock $300m to $400m in funding during the 2019-23 period, would provide financial support in case of need. Further, it indicated that the IMF program has provided an important incentive for reforms, such as the implementation of the fiscal rule that capped the public debt level at 60% of GDP. As a result, it noted that the fiscal deficit has shifted to a surplus so far this year, and that the public debt level regressed to about 53% of GDP. But it said that the improvement in the fiscal balance was mostly due to cuts in capital spending, which could have a negative impact on growth. It anticipated that rating agencies could upgrade Armenia's sovereign ratings amid improvements in the economic policy framework, in governance and in institutional effectiveness, as well as due to the decline in the public debt level. However, it noted that the implementation of other economic, fiscal and structural reforms has so far been slower than expected.
Source: Barclays Capital

MOROCCO

Banks' ratings benefit from high probability of government support

In its periodic review of the ratings of Attijariwafa Bank (Attijariwafa), Groupe Banque Centrale Populaire (GBCP), BMCE Bank (BMCE) and Crédit du Maroc (CdM), Moody's Investors Service indicated that the banks' 'Ba1' long-term local currency deposit rating benefits from a very high probability of government support in case of need. It noted that CdM's adjusted Baseline Credit Assessment (BCA) of 'ba1' reflects a two-notch uplift due to the high probability of support from its parent bank Crédit Agricole. It added that CdM's BCA balances the bank's sound capitalization, improving profitability as well as stable funding and liquidity, with its modest asset quality. Further, it indicated that the 'ba3' BCA of Attijariwafa and of GBCP is supported by the banks' solid profitability, high liquidity, and stable funding. But it noted that the two banks' BCA is constrained by their modest capitalization, and by risks from high credit concentrations and growing operations in Sub-Saharan Africa (SSA). Also, it noted that the 'b1' BCA of BMCE is driven by its moderate profitability, stable funding and high liquidity, but is constrained by its modest capitalization, weak asset quality and the risk from its operations in the SSA region. In parallel, Moody's pointed out that the banks' long-term foreign currency deposit rating of 'Ba2' is constrained by Morocco's sovereign ceiling.

Source: Moody's Investors Service

TURKEY

Rate cuts are credit negative for banks' funding

Moody's Investors Service indicated that the large interest rate cuts by the Central Bank of the Republic of Turkey (CBRT), so far in the second half of 2019, are credit negative for the funding of Turkish banks. It noted that the CBRT reduced on October 25 its reference one-week repo rate by 250 basis points to 14%, bringing the total easing to 10% since the dismissal of the CBRT governor in July 2019. First, it pointed out that lower interest rates would make foreign lending to Turkish banks and investing in Turkish lira less attractive, in case the inflation rate increases following the anticipated economic stimulus. It considered that the banks' strong dependence on short-term wholesale funding in foreign currency exposes them to shifts in investor confidence. It noted that investors who seek higher yields are currently attracted by Turkey's real interest rate of 4.7%, but it said that increased inflationary pressure would reduce real interest rates. Second, it indicated that the CBRT could further cut the reference rate in December due to political pressure. It considered that the cuts in interest rates could negatively affect the CBRT's credibility, increase concerns about the erosion of monetary policy independence and, in turn, weigh on investor sentiment. In parallel, it indicated that the 10% cumulative rate cuts will partly mitigate the deterioration in the banks' asset quality. It noted that the banks' non-performing loans ratio increased from 3.9% at the end of 2018 to 6.3% at end-September due to the reclassification of loans in the construction and energy sectors and to adjustments following an asset quality review. Still, it said that 40% of loans were denominated in foreign currency as of August 2019, and that these loans are not affected by a lower reference rate on the lira.

Source: Moody's Investors Service

ANGOLA

Free-floating exchange rate regime positive for ongoing macroeconomic adjustment

Bank of America Merrill Lynch (BofAML) considered that the Banco Nacional de Angola's (BNA) decision on October 23 to move towards a free-floating exchange rate regime is a positive step in the ongoing macroeconomic adjustment under the IMF-supported economic program. It noted that the BNA removed the 2% margin on the reference exchange rate for banks, increased the reserve requirement ratio from 17% to 22%, and eased foreign currency limits on the imports of goods, among other measures. It said that the Angolan kwanza depreciated by 22% in October 2019, and by 35% in the first 10 months of 2019. It considered that Angola's real effective exchange rate is currently close to its fair value. However, it expected exchange rate volatility to persist due to the 33% gap between the official and the black market exchange rates and to continued capital outflows. It pointed out that the black market exchange rate spiked in October following the imposition of restrictions on illegal mining and informal commerce, which reduced foreign currency supply in the market. It projected the exchange rate to reach AOA495 against the US dollar by the end of 2019, taking into account the gap between the official and parallel exchange rates and capital outflows. It considered that a potential Eurobond issuance of between $1bn and $2bn in November should help ease the persistent pressure on the BNA's foreign currency reserves, which reached $10.1bn in September 2019.

Source: Bank of America Merrill Lynch

NIGERIA

Agency takes rating actions on seven banks

Fitch Ratings affirmed the long-term Issuer Default Rating (IDR) of Zenith Bank, United Bank for Africa (UBA), Guaranty Trust Bank (GTB) and Bank of Industry at 'B+', the IDR of Access Bank at 'B', and the rating of First Bank of Nigeria (FBN) and its holding company FBN Holdings (FBNH) at 'B-'. It also affirmed the National long-term rating of Stanbic IBTC Bank (SIBTC) at 'AAA(nga)'. In addition, the agency revised the outlook on the ratings of FBN and FBNH from 'positive' to 'stable' due to ongoing pressure on their asset quality, while it maintained the 'stable' outlook on the other banks' IDRs. It pointed out that the ratings of Zenith Bank, FBN and FBNH, Access Bank, UBA, and GTB are supported by their standalone credit profiles, as reflected by their Viability Ratings (VRs). It added that the IDR of the state-owned Bank of Industry mirrors Nigeria's sovereign rating and incorporates a limited probability of support from the government in case of need. Also, it said that the rating of SIBTC reflects potential support from its South African parent bank, Standard Bank Group. In parallel, Fitch affirmed the VRs of Zenith Bank, UBA, and GTB at 'b+', the rating of Access Bank at 'b', and the VRs of FBN and FBNH at 'b-'. It indicated that the banks' VRs are constrained by Nigeria's operating environment where economic recovery is fragile, policy uncertainty is high, regulatory risks are increasing and opportunities for sound credit growth are limited. It noted that Zenith Bank's VR reflects the bank's solid earnings generation and profitability, good cost control, high capitalization and strong franchise.

Source: Fitch Ratings

ENERGY / COMMODITIES

Brent oil prices to average $62 p/b in fourth quarter of 2019

ICE Brent crude oil front-month prices have been trading above $60 per barrel (p/b) since October 23, 2019, gradually recovering from the low levels at around $58 p/b at the beginning of the month. The increase in oil prices is partly due to signs of progress towards reaching a trade agreement between the U.S. and China, which offset the downward pressure on prices from a significant rise in U.S. oil inventories. Further, Goldman Sachs indicated that fundamentals in the global oil market have recently improved. It estimated that the oil market was in a deficit of 1.3 million barrels per day in the third quarter of 2019, the largest deficit since the second quarter of 2017. It attributed the deficit to sanction-driven declines in oil production in Iran and Venezuela, as well as to voluntary cuts by Saudi Arabia before the attack on the Kingdom's Aramco facilities, and to a drawdown on oil inventories in emerging markets. As such, it projected Brent oil prices to average $62 p/b in the fourth quarter of 2019, similar to the average price in the third quarter of the year. It expected oil prices to average about $60 p/b in 2020, in case of subdued global economic growth or in the absence of heightened geopolitical tensions. It anticipated OPEC and Russia to extend the production cut agreement in 2020 in order to continue balancing the global oil market, amid concerns about weaker demand and strong supply growth in non-OPEC producing countries.

Source: Goldman Sachs, Refinitiv, Byblos Research

Middle East's jewelry demand down 2.6% to 126 tons in first nine months of 2019

Demand for jewelry in the Middle East totaled 126.3 tons in the first nine months of 2019, down by 2.6% from 129.6 tons in the same period last year, and accounting for 8.3% of global jewelry demand. Consumption of gold jewelry in Saudi Arabia reached 28.7 tons, representing 22.7% of the region's demand. The UAE followed with 25.4 tons (20%), then Iran with 22 tons (17.4%), Egypt with 19.5 tons (15.5%), and Kuwait with 10 tons (7.8%).

Source: World Gold Council, Byblos Research

Iraq's oil exports down 0.4% in October 2019

Preliminary figures show that Iraq's crude oil exports totaled 106.9 million barrels in October 2019, constituting a decline of 0.4% from 107.3 million barrels in September 2019. They averaged 3.45 million barrels per day (b/d) in October 2019 compared to an average 3.58 million b/d in the previous month. Oil exports from the country's central and southern fields reached 103.5 million barrels in October, followed by shipments from the Kirkuk fields with 2.6 million barrels, those from the northern Qayara oil field with 431,486 barrels, and exports to Jordan with 307,292 barrels. Oil export receipts stood at $6.1bn in October 2019, down by 3.4% from $6.3bn in August.

Source: Iraq Ministry of Oil, Byblos Research

Saudi Arabia's oil supply to decline by 5% in 2019

The International Monetary Fund expected Saudi Arabia's crude oil production to reach 9.75 million barrels per day (b/d) in 2019, which would constitute a decrease of 5.4% from 10.3 million b/d in 2018. Also, it projected the Kingdom's crude oil exports to average 6.95 million b/d in 2019, down by 5.7% from 7.4 million b/d last year. Saudi Arabia is OPEC's largest oil producer.

Source: International Monetary Fund, Byblos Research

Base Metals: Zinc prices down 13% in first 10 months of 2019

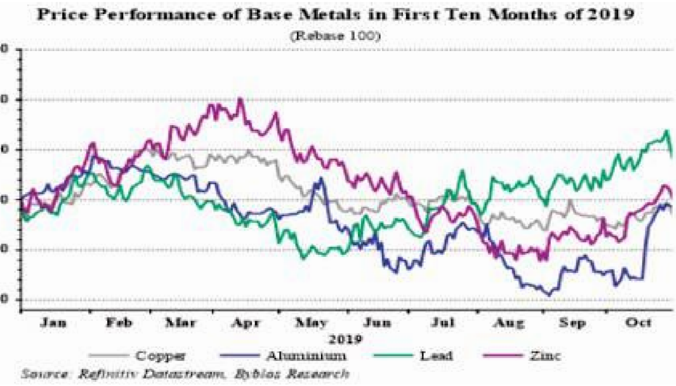
LME zinc cash prices averaged $2,588 per ton in the first 10 months of 2019, constituting a decrease of 13.2% from an average of $2,983 per ton in the same period of 2018. The decline in prices is mainly due to the ongoing U.S.-China trade tensions and its impact on global demand and economic growth. Zinc prices grew gradually from $2,308 per ton on October 7, 2019 to $2,601 per ton on November 4, 2019, their highest level since June 25, 2019. The increase in prices was driven by worries about supply shortages, as LME-registered inventories declined to their lowest level in two decades. In fact, the International Lead and Zinc Study Group (ILZSG) projected last month the supply deficit in the zinc market at 178,000 tons in 2019, compared to an earlier forecast of 121,000 tons. It attributed the wider deficit to the slower-than-expected increase in supply amid challenging production conditions in several countries, despite weakening global demand for zinc. The ILZSG expected global demand for zinc to be stagnant at 13.7 million tons in 2019, as lower demand in Europe, India and Japan will offset higher demand in the U.S. and China. In parallel, it forecast global refined zinc production to increase by 2.5% to 13.5 million tons in 2019, mainly driven by an anticipated rise of 7.1% in Chinese output.

Source: International Lead and Zinc Study Group, Refinitiv

Precious Metals: Gold prices to average $1,575 per ounce in coming 12 months

Gold prices averaged $1,377 per troy ounce in the first 10 months of 2019, constituting an increase of 8% from an average of $1,276 per ounce in the same period of 2018. They traded at a low of $1,268 per ounce and a high of $1,549 an ounce so far this year. The rise in the metal's price has mainly been driven by investors' increased holdings of gold Exchange Traded Funds and the continued purchase of the metal by central banks worldwide. Gold prices averaged $1,495 per ounce in October 2019, and are projected to average $1,500 per ounce in the coming three months and $1,575 per ounce in the next 12 months, supported by a weaker US dollar and slowing global growth. In parallel, global gold demand rose by 7% year-on-year to 3,317.5 tons in the first nine months of 2019, due to an annual increase of 31.4% in investment demand and a rise of 11.6% net purchases by central banks, which more than offset the 4.6% decline in jewelry consumption and the 3% decline in demand from the technology sector. Gold jewelry accounted for 51.4% of total demand in the first nine months of 2019, followed by investment demand with 24.7% of the total, net purchases by central banks (15.8%), and demand from the technology sector (8.1%).

Source: Julius Bär, World Gold Council, Refinitiv



COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	- -	- -	- -	- -	BB+ Negative	-5.2	36.9*	2.2	-	-	-	-9.1	-
Angola	B- 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 Negative	B Negative	 -	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+ Positive	Caa1 Stable	- -	- -	CCC Stable	-0.5	15.7	12.9**	4.4	3	104.1	-0.5	2.8
Morocco	BBB- Stable	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- CWN***	Caa2 UR****	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 Stable	B+ Positive	- -	B- Stable	-1.8	48.5	81.7	-	-	-	-6.2	-
China	A+ Stable	A1 Stable	A+ Stable	- -	A Stable	-4.8	50.5	-	40.0	2.1	64.2	0.4	0.8
India	BBB- Stable	Baa2 Stable	BBB- Stable	- -	BBB Stable	-6.6	69.8	-	39.5	19.4	90.7	-2.5	1.6
Kazakhstan	BBB- Stable	Baa3 Positive	BBB Stable	- -	BBB Stable	0.5	21.9	-	25.7	4.7	87.4	0.6	1.5
Pakistan	B- Stable	B3 Negative	B- Stable	- -	CCC Negative	-6.5	72.1	30.4	50.1	28.3	144.3	-6.1	0.87
Central & Eastern Europe													
Bulgaria	BBB- Positive	Baa2 Stable	BBB Positive	- -	BBB Stable	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
Romania	BBB- Stable	Baa3 Stable	BBB- Stable	- -	BBB- Negative	-2.9	36.6	-	25.8	4.2	95.1	-4.6	2.4
Russia	BBB- Stable	Baa3 Stable	BBB Stable	- -	BBB- Stable	2.8	14.0	-	17.2	2.6	57.4	7.0	-1.3
Turkey	B+ Stable	B1 Negative	BB- Stable	BB- Negative	B+ Negative	-3.6	29.1	-	84.3	5.9	176.4	-3.6	1.0
Ukraine	B Stable	Caa1 Stable	B- Stable	- -	B- Stable	-2.3	63.9	-	59.3	9.3	129.2	-3.7	1.0

** Central Government*
*** External debt, official debt, debtor based*
**** CreditWatch negative*
***** Under Review for Downgrade*
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	1.50-1.75	30-Oct-19	Cut 25bps	11-Dec-19
Eurozone	Refi Rate	0.00	24-Oct-19	No change	12-Dec-19
UK	Bank Rate	0.75	07-Nov-19	No change	19-Dec-19
Japan	O/N Call Rate	-0.10	31-Oct-19	No change	19-Dec-19
Australia	Cash Rate	0.75	05-Nov-19	No change	03-Dec-19
New Zealand	Cash Rate	1.00	25-Sep-19	No change	13-Nov-19
Switzerland	3 month Libor target	-1.25-(-0.25)	19-Sep-19	No change	12-Dec-19
Canada	Overnight rate	1.75	30-Oct-19	No change	04-Dec-19
Emerging Markets					
China	One-year Loan Prime Rate	4.20	21-Oct-19	No change	20-Nov-19
Hong Kong	Base Rate	2.00	31-Oct-19	Cut 25bps	N/A
Taiwan	Discount Rate	1.375	19-Sep-19	No change	19-Dec-19
South Korea	Base Rate	1.25	16-Oct-19	Cut 25bps	29-Nov-19
Malaysia	O/N Policy Rate	3.00	05-Nov-19	No change	22-Jan-20
Thailand	1D Repo	1.25	06-Nov-19	Cut 25bps	18-Dec-19
India	Reverse repo rate	5.15	04-Oct-19	Cut 25bps	05-Dec-19
UAE	Repo rate	2.00	31-Oct-19	Cut 25bps	11-Dec-19
Saudi Arabia	Repo rate	2.25	30-Oct-19	Cut 25bps	11-Dec-19
Egypt	Overnight Deposit	13.25	26-Sep-19	Cut 100bps	14-Nov-19
Turkey	Repo Rate	14.00	24-Oct-19	Cut 250bps	12-Dec-19
South Africa	Repo rate	6.50	19-Sep-19	No change	21-Nov-19
Kenya	Central Bank Rate	9.00	23-Sep-19	No change	N/A
Nigeria	Monetary Policy Rate	13.50	20-Sep-19	No change	26-Nov-19
Ghana	Prime Rate	16.00	20-Sep-19	No change	25-Nov-19
Angola	Base rate	15.50	01-Oct-19	No change	25-Nov-19
Mexico	Target Rate	7.75	26-Sep-19	Cut 25bps	14-Nov-19
Brazil	Selic Rate	5.00	30-Oct-19	Cut 50bps	11-Dec-19
Armenia	Refi Rate	5.50	29-Oct-19	No change	10-Dec-19
Romania	Policy Rate	2.50	06-Nov-19	No change	08-Jan-20
Bulgaria	Base Interest	0.00	01-Nov-19	No change	02-Dec-19
Kazakhstan	Repo Rate	9.25	28-Oct-19	No change	09-Dec-19
Ukraine	Discount Rate	15.50	24-Oct-19	Cut 100bps	12-Dec-19
Russia	Refi Rate	6.50	25-Oct-19	Cut 50bps	13-Dec-19

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