In memory of the victims of the Beirut Port explosion

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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

S&P affirms 58% of sovereign ratings since March 2020

S&P Global Ratings indicated that it has reviewed since March 10, 2020 the ratings of 117 out of the 135 sovereigns that it rates. It affirmed the ratings of 58% of the reviewed sovereigns, despite its expectations that most of them will face economic contractions and rising government debt levels due to the coronavirus pandemic. In addition, it downgraded the ratings of 18% of the reviewed sovereigns, while it revised the outlooks on the ratings of 15% of the sovereigns from 'stable' to 'negative' and the outlooks on 9% of the economies from 'positive' to 'stable'. It noted that the majority of its negative rating actions covered speculative-grade sovereigns, mainly in emerging markets. It added that the outlook on the ratings of about 75% of the sovereigns is 'stable', while it has a 'negative' outlook on 22% of them and a 'positive' outlook on the ratings of 3% of the sovereigns. It pointed out that the 'negative' outlook balance indicates that there will be additional negative rating actions in the next six months. In parallel, it said that 35 sovereigns, or 26% of total rated sovereigns, are in the 'B' category, followed by 28 sovereigns that are rated in the 'BBB' segment (20.7%), 20 economies in the 'AA' category (14.8%), 17 sovereigns rated in the 'BB' range (12.6%), 14 economies in the 'A' category (10.4%), 11 sovereigns rated in the 'AAA' segment (8.1%), and 10 sovereigns rated 'CCC' and below (7.4%). S&P noted that it analyzed the trajectory of the ratings under the assumption that the coronavirus pandemic will result in a global economic contraction of 4% in 2020, and that the economic recovery will start in the first quarter of 2021.

Source: S&P Global Ratings

EMERGING MARKETS

Trading in Credit Default Swaps down 20% to $289bn in second quarter of 2020

Trading in emerging markets Credit Default Swaps (CDS) reached $289bn in the second quarter of 2020, constituting a decrease of 20% from $364bn in the second quarter of 2019 and a drop of 44% from $521bn in the first quarter of 2020. The volume of traded emerging markets debt instruments in the second quarter of the year declined to its lowest quarterly level in three years, due to the adverse impact of the COVID-19 outbreak. The most frequently traded sovereign CDS contracts in the second quarter of 2020 were those of China at $31bn, followed by Mexico at $28bn and Brazil at $25bn. As such, traded sovereign CDS contracts on China accounted for about 10.7% of total trading in emerging markets CDS in the covered quarter, followed by CDS contracts on Mexico (9.7%) and Brazil (8.6%). Further, the most frequently traded corporate CDS contracts in the covered quarter were those of Mexico's state-oil company Pemex at about $2bn, which accounted for about 0.7% of total trading in emerging markets CDS. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers, as well as from 12 major international banks and broker-dealers.

Source: EMTA

MENA

Stock markets down 16% in first seven months of 2020

Arab stock markets dropped by 15.6% and Gulf Cooperation Council equity markets fell by 14.2% in the first seven months of 2020, relative to expansions of 10.5% and 10.6%, respectively, in the same period of 2019. In comparison, global stocks decreased by 3.3% and emerging market equities declined by 4% in the covered period. The index of the Beirut Stock Exchange jumped by 115.6% in the first seven months of 2020, activity on the Damascus Securities Exchange expanded by 30.8%, and the Khartoum Stock Exchange grew by 7.4%. In contrast, activity on the Dubai Financial Market dropped by 25.8% in the first seven months of 2020, the Egyptian Exchange fell by 24%, the Bahrain Bourse decreased by 19.8%, the Boursa Kuwait contracted by 16.8%, the Casablanca Stock Exchange declined by 16%, the Abu Dhabi Securities Exchange regressed by 15.2%, the Amman Stock Exchange retreated by 13%, the Palestine Exchange dropped by 12.4%, the Saudi Stock Exchange regressed by 11.1%, the Muscat Securities Market decreased by 10.4%, the Qatar Stock Exchange declined by 10.1%, the Iraq Stock Exchange contracted by 8.5%, and the Tunis Bourse retreated by 7.6%.

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

GCC

Fixed income issuance up 9% to $96bn in first seven months of 2020

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $95.6bn in the first seven months of 2020, constituting an increase of 8.5% from $88.1bn in the same period of 2019. Fixed income issuance in the covered period consisted of $37bn in sovereign bonds, or 38.7% of the total, followed by $24.6bn in sovereign sukuk (25.7%), $23.4bn in corporate bonds (24.5%), and $10.6bn in corporate sukuk (11.1%). Further, aggregate issuance by GCC sovereigns amounted to $61.6bn in the first seven months of 2020, or 64.4% of total fixed income issuance in the region; while aggregate bonds and sukuk issued by corporates in the GCC reached $34bn, or 35.6% of the total. GCC sovereigns issued $1.7bn in bonds and sukuk in January, $10.2bn in February, $4.2bn in March, $27.3bn in April, $3.4bn in May, $3.5bn in June, and $11.3bn in July 2020. In parallel, companies in the GCC issued $3.3bn in bonds and sukuk in January, $10.9bn in February, $1.6bn in March, $1.7bn in April, $6.9bn in May, $4.6bn in June, and $5bn in July 2020. Sovereign issuance in July consisted of $9.4bn in sukuk and $127.5m in bonds issued by Saudi Arabia, $1bn in bonds issued by the UAE, $398m in bonds and $331.5m in sukuk issued by Bahrain, as well as a $100m supranational sukuk issued by IDB Trust Services. In parallel, corporate issuance in the covered month included $1.5bn in sukuk and $1.3bn in bonds issued by UAE-based companies, $1.5bn in sukuk issued by Saudi Arabia-based firms, and $171.4m in bonds issued by Qatar-based companies.

Source: KAMCO

POLITICAL RISK OVERVIEW - July 2020

EGYPT

Egyptian security forces thwarted a terrorist attack in the city of Bir al-Abed in the North Sinai Governorate, killing 18 Islamic State (IS) militants. In retaliation, IS insurgents seized control of four nearby villages, killing at least one soldier and forcing the residents to flee. In parallel, the Egyptian government took preparatory steps towards a military intervention in Libya against the Turkish-backed forces of the United Nations-recognized Government of National Accord. Also, Libya's House of Representatives, which is loyal to Field Marshal Khalifa Haftar and is based in the eastern city of Tobruk, along with tribal leaders in eastern Libya, asked Egypt to intervene militarily. Further, the Egyptian Parliament approved on July 20 the deployment of armed forces abroad to defend national security.

ETHIOPIA

Prime Minster Abiy Ahmed announced that, due to the heavy rain season, Ethiopia achieved its first-year target for filling the reservoir of the Grand Ethiopian Renaissance Dam on the Nile River. He said that the accumulated water is sufficient to test the dam's first two turbines, which is an important milestone towards the production of energy. However, negotiations on a trilateral agreement between Egypt, Ethiopia and Sudan on how to operate the dam are still stalling. In parallel, relations deteriorated between the federal government and the Tigray region, after the latter's decision to organize regional elections in 2020 despite the postponement of the vote due to the COVID-19 outbreak. Prime Minster Abiy Ahmed condemned the elections as unconstitutional but ruled out military intervention.

IRAN

Iran triggered the dispute resolution mechanism of the Joint Comprehensive Plan of Action with its European counterparts, as France, Germany and the United Kingdom urged Iran to cooperate with the International Atomic Energy Agency. The U.S. continued its efforts to gather international support to extend the United Nations' arms embargo on Iran that is due to expire in October. Several incidents took place in Iran, including a blast at the Natanz nuclear facility, the burning of more than six ships at the Bushehr shipyard and an explosion at the Isfahan power plant.

IRAQ

Two unknown attackers killed Hisham al-Hashemi in Baghdad, a prominent security adviser to Prime Minister Mustafa Al-Kadhimi. Kataeb Hizbollah warned against Prime Minister Kadhimi's crackdown on the militia. The U.S. reaffirmed its military presence in Iraq, while suspected Iran-backed militias launched rocket attacks on U.S. positions in Baghdad's Green Zone, as well as on Iraqi vehicles transporting U.S. military supplies near Diwaniyah. Unclaimed rockets targeted the Basmaya base that hosts American troops south of Baghdad and the Camp Taji north of the capital. Following unprecedented revenue shortfalls and failed attempts at reforms, Prime Minister Kadhimi launched an anti-corruption campaign to recover forgone import tax revenues.

LIBYA

Turkish-backed forces loyal to the UN-recognized Government of National Accord (GNA) prepared an offensive to capture the northern city of Sirte and the nearby Jufra airbase from the Libyan Arab Armed Forces (LAAF). In response, the Egyptian Parliament authorized the deployment of Egyptian troops to Libya "in defense of Egypt's national security". Germany and the U.S. called for the demilitarization of central Libya, while the United Nations warned that foreign interference in Libya has reached unprecedented levels and pressed for an immediate ceasefire. The Libyan National Oil Corporation (NOC) decided to lift the *force majeure* status on oil sites and ordered the resumption of oil exports. However, the NOC re-imposed *force majeure* within 24 hours, after the LAAF renewed for six months the blockade on the country's oil exports.

SUDAN

The government is facing mounting challenges to advance its transitional agenda amid the sustained delays in finalizing a peace accord with rebel groups and the escalating deadly intercommunal violence in Darfur. Following large nationwide demonstrations on June 30 to demand greater civilian rule in the government, Prime Minister Abdallah Hamdok dismissed the chief of police and his deputy, and accepted the resignation of six ministers and dismissed one. He also appointed 18 civilian state governors.

SYRIA

Kataib Khattab Al-Shishani, an unknown group suspected to be composed of militants from the Caucasus, claimed responsibility for an attack that wounded Russian and Turkish soldiers in the de-escalation zone north of the country. In retaliation, Russia carried out airstrikes on rebel-held parts of Idlib and Latakia provinces. Fighting intensified between the Syrian regime and jihadists in Jabal al-Zawiya in southern Idlib. President Assad's Baath Party and its allies won the parliamentary elections, which the opposing Syrian National Coalition described as "theatrical". Iran announced the reinforcement of Syria's air defense system as part of a new military cooperation agreement between the two countries. Israel reportedly launched airstrikes on suspected Iranian and Iran-linked targets south of Damascus.

TUNISIA

Prime Minister Elyes Fakhfakh resigned on July 15, after Ennahda, the largest party in Parliament, tabled a no-confidence motion against his government, following weeks of political tensions and accusations that he abused his authority for personal gains. President Kais Saïed called on PM Fakhfakh to step down in order to prevent the motion from passing, as it would give Ennahda, rather than the President, the right to nominate a new prime minister. President Saïed designated on July 25 Interior Minister Hichem Mechichi as the new prime minister and tasked him with forming a government by August 25. A group of 97 members of Parliament failed to withdraw confidence from Speaker of Parliament and leader of Ennahda party Rached Ghannouchi on July 30 as they did not secure a majority.

TURKEY

Turkey expanded its military operations against the Kurdistan Workers' Party (PKK) in northern Iraq, while Iraq called for an international stance against Ankara's violations. The Turkish government maintained pressure on the pro-Kurdish Peoples' Democratic Party (HDP), as 51 out of 65 municipalities that the HDP won in the March 2019 elections are now run by state-appointed "trustees". Tensions persisted with Greece over maritime boundaries, as Turkey continued its drilling activity in the Eastern Mediterranean. Greek military forces recorded airspace violations by Turkish aircrafts almost every day in the first three weeks of July. Turkey announced that al Jufra airbase and the city of Sirte in Libya are its next military targets, after controlling Tripoli.

YEMEN

Fighting escalated in the north of the country between forces loyal to President Abdrabbuh Mansour Hadi and Huthi rebels. Also, cross-border attacks between Huthi rebels and Saudi Arabia intensified. The Saudi-led coalition targeted areas around the Huthi-held capital city of Sanaa, while Huthi rebels responded with drone and missile attacks on an oil facility in the Saudi city of Jizan, on the Abha airport, and on military sites in the cities of Jizan and Najran. The Hadi government and the UAE-backed Southern Transitional Council (STC) made progress towards reaching a deal, after the STC rescinded the declaration of self-administration that it made in April, and agreed to implement the provisions of the November 2019 Riyadh Agreement.

Source: International Crisis Group, Newswires

OUTLOOK

IRAQ

Lack of IMF deal and low oil prices could deplete foreign currency reserves in two to three years

Bank of America anticipated that the lack of policy action by Iraqi authorities towards reaching a deal with the International Monetary Fund and the low global oil price environment will likely widen the fiscal and external deficits, as well as exert pressure on foreign currency reserves and on the currency peg. It indicated that the foreign currency reserves of the Central Bank of Iraq grew by $3.4bn in 2019 and reached $68.7bn at the end of last year. But it estimated that reserves could be depleted in the coming two to three years in the absence of reforms and external funding, and in case oil prices range between $30 per barrel (p/b) and $40 p/b. It added that authorities could devalue the Iraqi dinar in the absence of an agreement with the IMF, given the decline in oil export receipts. It noted that authorities have recently started discussions with the IMF on a Stand-By Arrangement following the formation of the Cabinet in May 2020 and have sent positive signals about the implementation of reforms. However, it pointed out that the authorities' mixed track record on reforms, and the possibly limited time of the Cabinet given the planned early elections, could hinder the implementation of IMF-backed reforms. Further, it did not expect Iraq to issue Eurobonds without a deal with the IMF.

In parallel, it indicated that the Iraqi Parliament did not approve the 2020 draft budget that targeted a deficit of 21% of GDP this year. It pointed out that, in the absence of a ratified budget, the government's expenditures this year would be in accordance with the "one-twelfth" spending rule, which means that monthly spending in 2020 should be equivalent to one-twelfth of aggregate expenditures in 2019. Based on this rule, it projected the deficit to reach 22.5% of GDP in 2020, in case oil prices average $40 p/b, and the OPEC+ oil output agreement is successfully implemented, and a contraction of 9% in Iraq's real GDP this year. It expected the authorities to monetize the fiscal deficit in 2020, given the limited room for domestic debt issuance. It also forecast the current account deficit at 16% of GDP in 2020, unchanged from the preceding year.

Source: Bank of America

UAE

Challenges in non-hydrocarbon sector to weigh on economic recovery

Citi Research projected real GDP in the United Arab Emirates to contract by 4.8% in 2020, following growth rates of 1.2% in 2018 and 1.7% in 2019. It anticipated that the sharp slowdown in global economic activity and disruptions to supply chains will significantly weigh on the UAE's non-oil sector, given the country's status as a global logistics and re-processing hub. As such, it forecast activity in the non-hydrocarbon sector to shrink by about 3.6% this year. Further, it expected the authorities' policy measures, including the increase of the Central Bank of the UAE's stimulus from $27bn to $70bn and the interest rate cuts, to support the recovery in economic activity. It forecast real GDP to grow by 3.8% in 2021 amid an anticipated rise in global oil prices and the expected global economic recovery. It projected the inflation rate at -1.1% in 2020 despite higher food prices, and at about 2% in 2021.

In parallel, it said that the UAE's robust export activity to China between March and June 2020, as well as the absence of pressure on the UAE dirham to appreciate, have supported the country's external position so far this year. However, it projected the current account surplus to decrease from 7% of GDP in 2019 to 0.2% of GDP in 2020, due to lower oil prices and a slowdown in global trade activity.

Further, Citi anticipated that travel restrictions, social distancing, the postponement of the World Expo 2020, and a weak property market will weigh on the UAE's near-term outlook. It expected the country's long-term economic performance to be mainly contingent on the authorities' commitment and progress on structural reforms that aim to boost productivity and improve the management of government-related entities. It projected oil prices to increase in the short to medium term, which would support growth prospects, but it anticipated prices to remain below the country's fiscal break-even price.

Source: Citi Research

TURKEY

External balance to weaken, financing needs to remain elevated in 2020

Deutsche Bank expected Turkey's domestic and external environment to be challenging in the rest of 2020 amid the spread of COVID-19. It noted that the pandemic has halted tourism inflows and led to US dollar shortages in the summer season, while long-term foreign investments have been put on hold and locals have started to increasingly buy gold. As such, it expected the pandemic to adversely affect the country's external balance, increase its external financing requirements and deplete its foreign currency reserves in 2020. It added that Turkey is exposed to risks pertaining to foreign currency debt rollover, foreign currency deposits that are increasingly placed at the Central Bank of the Republic of Turkey (CBRT), and low foreign currency reserves.

The bank projected Turkey's current account surplus to shift to a deficit in 2020, due to weaker activity in the tourism and transportation sectors, reduced external demand, as well as high import demand amid strong consumer credit growth. It noted that the weaker Turkish lira and low global oil prices will help contain the deterioration in the external balance. In addition, it noted that the country's elevated external financing requirements, which stood at about $195bn or 26% of GDP in May 2020, are depleting the CBRT's foreign currency reserves, especially given the subdued non-resident capital inflows. It considered that such a backdrop implies the need for a weaker currency in the absence of an improvement in external conditions or foreign currency liquidity. It added that the lack of external financing could exert downward pressure on economic activity.

Deutsche Bank expected Turkey to be able to meet its short-term external debt obligations, supported by the rollover of non-resident deposits and trade credits, by the foreign currency liquidity buffers of local banks, as well as by foreign currency liquidity support from swap lines from Qatar and China to the CBRT. It considered that the CBRT's official foreign currency reserves, which stood at more than $90bn at end-May 2020, will provide a significant buffer against short-term rollover risks.

Source: Deutsche Bank

GCC

Agency downgrades ratings of Bahrain and Oman

Fitch Ratings downgraded Bahrain's long-term foreign currency Issuer Default Rating (IDR) from 'BB-' to 'B+', with a 'stable' outlook on the rating. It attributed the downgrade to the low global oil price environment and the COVID-19 pandemic, which widened the fiscal deficit, increased the government's debt level, exerted pressure on the already low level of foreign currency reserves, and caused a sharp economic contraction. It forecast the fiscal deficit to widen from 4.6% of GDP in 2019 to 15.5% of GDP in 2020, and anticipated the public debt level to reach 130% of GDP at end-2020. Also, it indicated that Bahrain is facing a significant external amortization schedule, with $5.6bn in external debt maturing in the 2021-23 period. It estimated that Bahrain would need to retain market access and issue at least $2bn to $2.5bn in foreign currency-denominated debt annually to cover its external financing needs. In parallel, Fitch downgraded Oman's long-term foreign currency IDR from 'BB' to 'BB-', and kept the 'negative' outlook on the rating. It attributed its action to the continued erosion of the country's fiscal and external balances, which has been exacerbated by low oil prices and the COVID-19 shock. It projected the fiscal deficit to widen from 8% of GDP in 2019 to 20% of GDP in 2020, mainly due to lower oil export receipts, and forecast the debt level to exceed 80% of GDP at end-2020. It also expected Oman's sovereign net foreign assets to deteriorate from -2% of GDP at end-2019 to around -17% of GDP at the end of 2020, and for the net external debt position to reach 70% of GDP at end-2020.

Source: Fitch Ratings

SAUDI ARABIA

Drop in oil prices weighs on fiscal position

Regional investment bank EFG Hermes indicated that the double shocks of the coronavirus pandemic and the collapse in global oil prices led to the widening of Saudi Arabia's fiscal deficit by 226% to $29bn in the second quarter of 2020 from the same period last year. It pointed out that government revenues fell by 48.6% year-on-year to $35.7bn in the second quarter, as oil receipts dropped by 45% due to a sharp decline of more than 50% in oil prices. Also, it noted that non-hydrocarbon revenues fell by 55% to $10.2bn in the second quarter of 2020, due to the coronavirus-related lockdown and to the deferrals of tax collection as part of the fiscal stimulus. Further, it said that government expenditures fell by 17% year-on-year in the second quarter of 2020, due to an 8% decline in current spending, mainly from a drop in wages and a cut in social spending, as well as to a 52% drop in capital spending. It considered that the 17% decline in expenditures offset the 55% drop in non-hydrocarbon revenues, which means that the deterioration in the fiscal deficit was only due to lower oil prices. It estimated that reduced spending and the lockdown led to a 5.5% contraction in non-hydrocarbon GDP in the covered quarter. It added that the public debt stock rose by 30% year-on-year to $219bn at end-June, and was equivalent to 32% of GDP, as the government resorted to increased borrowing, while it withdrew $13bn from its reserves. It expected the fiscal position to improve in the second half of 2020, as it anticipated oil prices to pick up, and in case authorities increase the value-added tax rate to 15% and cut spending by $27bn.

Source: EFG Hermes

AFRICA

Low oil prices and pandemic to weigh on fiscal and external balances of oil exporters

Fitch Ratings indicated that the decline in global oil prices and the coronavirus outbreak will significantly weigh on the fiscal and external balances of Angola, the Republic of Congo, Gabon and Nigeria, and will result in large financing needs in these economies in 2020. It added that the countries' high reliance on the hydrocarbon sector limits their ability to implement countercyclical policy measures. It projected the fiscal deficits of the four economies to widen by an average of 4.7 percentage points of GDP in 2020, with deficits ranging from 3.8% of GDP in the Republic of Congo to 6% of GDP in Nigeria. Also, it anticipated the public debt of the four oil exporters to increase from already elevated levels, and to exceed 115% of GDP in Angola and the Republic of Congo by the end of 2020. As such, it said that wider fiscal deficits and elevated debt maturities will result in large financing needs this year. It noted that the shallow domestic debt markets in Angola, Gabon and the Republic of Congo could increase liquidity risks and threaten their timely repayment of debt. It added that Nigeria faces lower pressure on its liquidity due to its ability to raise domestic debt. Further, it projected the current account deficits this year to range between 3.2% of GDP in Nigeria and 19.8% of GDP in the Republic of Congo. It said that official creditors will cover only part of the external funding needs. As such, it expected official international reserves to decline by 30% to 40% in Gabon and Nigeria, by 10% in Angola, and to turn negative in the Republic of Congo.

Source: Fitch Ratings

ANGOLA

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed Angola's long- and short-term foreign and local currency sovereign credit ratings at 'CCC+/C', with a 'stable' outlook. It anticipated the economy to remain in recession for a fifth consecutive year, and projected real GDP to contract by 5.5% in 2020, mainly due to lower global oil prices and cuts to oil production. It added that, in order to address the COVID-19-related challenges, the government revised its 2020 budget to a target fiscal deficit of 4% of GDP. However, the agency projected a slightly wider deficit of 4.5% of GDP this year, mainly due to weaker growth prospects. It forecast the government debt level to rise from 109% of GDP at end-2019 to 143% of GDP at the end of 2020, due to the depreciation of about 17% of the Angolan kwanza. It expected the ongoing debt reprofiling initiatives with official lenders to provide some immediate relief, and said that the government estimates such initiatives to reduce debt servicing by about $7bn in 2020-22. It added that authorities are securing the approval of the International Monetary Fund to raise by $730m the country's ongoing 2019-21 Extended Fund Facility of $3.7bn, which would support foreign currency reserves and anchor policy reforms. In parallel, S&P projected the current account balance to shift from a surplus of 6.1% of GDP in 2019 to a deficit of 12.6% of GDP in 2020. It expected the authorities to finance the deficit mainly through external concessional debt and by drawing down foreign currency reserves. As such, it forecast Angola's foreign currency reserves to decline from $17.2bn at end-2019 to $13.5bn at the end of 2020.

Source: S&P Global Ratings

GCC

Banks' asset quality and profitability to weaken in coming quarters

Fitch Solutions expected the asset quality and profitability of banks in the Gulf Cooperation Council (GCC) countries to weaken in coming quarters as a result of the COVID-19 outbreak. It anticipated rising unemployment and deteriorating business activity in the region to weigh on the ability of households and businesses to repay their loans, which would increase the banks' non-performing loans in coming months. It considered that the tourism, real estate and personal consumption sectors will be the most vulnerable to a deterioration in asset quality. It also pointed out that the full impact of the pandemic on the banks' asset quality will be felt in coming quarters, given the upcoming expiration of payment deferral measures that most central banks in the GCC introduced. Also, it anticipated that the narrower interest margins of GCC banks due to policy rate cuts, along with their higher provisioning needs amid weakening asset quality, will weigh on their profitability in coming quarters. However, it considered that GCC banks are well-capitalized to withstand the COVID-19 crisis and the oil price shock, and have access to government support in case of need. Further, it expected consolidation among GCC banks to pick up, as banks look to reduce costs. It noted that the National Commercial Bank and Samba Financial Group made progress in merger talks, while Qatari banks Al Khaliji Bank and Masraf Al Rayan started merger talks last June.

Source: Fitch Solutions

QATAR

Bank ratings underpinned by government support

In its periodic review of the ratings of nine Qatari banks, Moody's Investors Service considered that all of the banks' ratings benefit from a very high likelihood of government support in case of financial stress. But it noted that the majority of these banks have high concentration levels on both sides of their balance sheets. The agency said that the 'Aa3' long-term deposit rating of Qatar National Bank reflects the bank's baseline credit assessment (BCA) of 'baa1', which is supported by its strong asset quality, high profitability, and solid capital and liquidity buffers. Further, it considered that the 'A1' ratings of Qatar Islamic Bank (QIB) and Masraf Al Rayan are driven by the banks' BCAs of 'baa2'. It indicated that the two banks' BCAs are supported by their solid profitability and sound asset quality, while QIB has adequate capital buffers and Masraf Al Rayan benefits from robust capital metrics despite weaker funding and liquidity positions. In addition, it pointed out that the 'A2' ratings of Qatar International Islamic Bank, Barwa Bank, and Ahli Bank are based on the banks' BCAs of 'baa3' that are supported in part by their solid and improving asset quality. In parallel, the agency noted that the 'A3' ratings of the Commercial Bank and Al Khaliji Bank are based on their BCAs of 'ba1'. It said that the BCA of the Commercial Bank is supported by its diversified funding profile and sound liquidity buffers. It added that Al Khaliji Bank's BCA reflects the bank's solid asset quality, and strong capitalization and liquidity. Further, it indicated that the 'Baa1' rating of Doha Bank is driven by its BCA of 'ba2', which is underpinned by the bank's healthy liquidity despite weak asset quality and profitability metrics.

Source: Moody's Investors Service

EGYPT

Risks to currency depreciation contained

Goldman Sachs considered that the elevated inflation rate and the appreciation of the exchange rate have led to an overvalued Egyptian pound. It added that the adverse impact of the coronavirus pandemic on Egypt's external balances could result in depreciation pressure on the currency in the medium term. However, it did not expect the pound to depreciate in the short term, as it estimated that the pound is currently overvalued by only 10% against the US dollar, relative to about 20% in May. In addition, it anticipated that Egypt's adequate external buffers, the authorities' commitment to a stable pound, and expectations of a moderate appreciation of the real exchange rate will support the pound in the medium term. It considered that further borrowing from international financial institutions, sovereign debt issuance, and portfolio inflows could even lead to an appreciation of the pound. It said that the new Stand-By Agreement that Egyptian authorities reached with the International Monetary Fund in May will help attract additional bilateral and multilateral financing to Egypt. In addition, it anticipated the US dollar to weaken against major currencies, which, along with a potentially faster recovery in tourism activity and remittance inflows, could further support the pound. Still, it noted that the Egyptian currency is exposed to significant event risks, as a potential global "risk-off" period could lead to volatility in emerging markets in the fourth quarter of 2020, amid expectations of a second wave of coronavirus infections. It also considered that an escalation of tensions in Africa, mainly related to Ethiopia and Libya, could impact investor sentiment, which represents a downside risk to the pound in the medium term.

Source: Goldman Sachs

TURKEY

Weakening lira to weigh on banks' capitalization

S&P Global Ratings did not expect the strong lending growth at Turkish banks to result in a larger-than-anticipated build-up of credit imbalances, as it projected this expansion to be short lived. It attributed the significant credit growth to policy measures in response to the COVID-19 pandemic, but it forecast lending activity to normalize in the remainder of the year. It anticipated domestic lending to grow by about 30% in 2020, and expected private sector loans to be equivalent to between 83% of GDP and 86% of GDP in the next two years. Also, it projected credit losses to increase in the 2020-21 period, but it anticipated the deterioration of asset quality to materialize by 2021, when authorities lift the forbearance measures. In addition, it expected that the strong lending growth, combined with higher credit losses, lower operating revenues and the weakening of the Turkish lira, to weigh on the banks' capitalization. Further, it considered that banks are vulnerable to negative market sentiment and risk aversion, due to their high reliance on short-term external funding. In parallel, Moody's Investors Service considered that the depreciation of the lira is credit negative for Turkish banks, and expected a protracted period of a weaker lira to increase problem loans and loan-loss charges. It anticipated that the resulting higher loan-loss provisions will weaken the banks' profitability metrics. Also, it projected the risk-weighted assets of foreign currency-denominated loans to increase, which would reduce the banks' capital ratios.

Source: S&P Global Ratings, Moody's Investors Service

ENERGY / COMMODITIES

Oil prices projected at $44 p/b at end-2020

ICE Brent crude oil front-month prices averaged $43.2 per barrel (p/b) in July 2020, constituting an increase of 6% from $40.8 p/b in June. Oil price volatility declined significantly in July and reached its lowest level since January 2020. Oil prices have been trading at between $44 p/b and $45 p/b so far in August, and found support from OPEC's near-full compliance to the June production cut agreement, as well as from China's intention to comply with the first phase of the trade deal with the United States. In addition, the weakening of the US dollar in early August has provided support to oil prices, as oil barrels are priced in US dollars, which makes them cheaper in other currencies. However, the upward potential for oil prices remains limited by investor concerns about a slower-than-expected recovery in global oil demand, given possible renewed coronavirus lockdown measures, as well as by rising global oil supply. As such, the U.S. Energy Information Administration expected oil prices to reach $44 p/b by the end of 2020. But it said that withdrawals from oil inventories worldwide will put upward pressure on crude oil prices throughout the coming year, and projected oil prices to average $50 p/b in 2021. In parallel, Bank of America expected the global oil market to post a deficit of 4.9 million barrels per day (b/d) in the second half of 2020 and of 1.7 million b/d in 2021, due to the sharp drop in the number of drilling rigs, especially in the U.S., as well as to the OPEC production cut agreement. As such, it forecast prices to recover to $60 p/b in the first half of 2021.
Source: Energy Information Administration, Bank of America, Refinitiv, Byblos Research

Middle East's jewelry demand down 38% to 56.5 tons in first half of 2020

Demand for jewelry in the Middle East totaled 56.5 tons in the first half of 2020, constituting a decline of 38.1% from 91.3 tons in the same period of 2019. It accounted for 10% of global jewelry demand. Consumption of gold jewelry in Saudi Arabia reached 11.1 tons in the covered period, representing 19.7% of the region's demand. The UAE followed with 10.8 tons (19%), then Iran with 10.2 tons (18%), Egypt with 8.6 tons (15.2%), and Kuwait with 5.8 tons (10.2%).
Source: World Gold Council, Byblos Research

OPEC's oil basket price up 17% in July 2020

The price of the reference basket of the Organization of Petroleum Exporting Countries averaged $43.42 per barrel (p/b) in July 2020, constituting a rise of 17.2% from $37.1 p/b in June 2020, and representing its highest level since February. Angola's Girassol posted a price of $45.78 p/b, followed by Iraq's Basrah Light at $44.63 p/b, and Algeria's Sahara Blend at $44.12 p/b. In parallel, all prices in the OPEC basket posted monthly increases of between $2.68 p/b and $7.73 p/b in July 2020.
Source: OPEC

OPEC oil output up 4% in July 2020

Oil production of the Organization of Petroleum Exporting Countries, based on secondary sources, averaged 23.2 million barrels per day (b/d) in July 2020, up by 4.4% from 22.2 million b/d in June 2020. Saudi Arabia produced 8.4 million b/d in July 2020, or 36.3% of OPEC's total output, followed by Iraq with 3.8 million b/d (16.2%), the UAE with 2.4 million b/d (10.5%), Kuwait with 2.2 million b/d (9.3%), and Iran with 1.9 million b/d (8.4%).
Source: OPEC

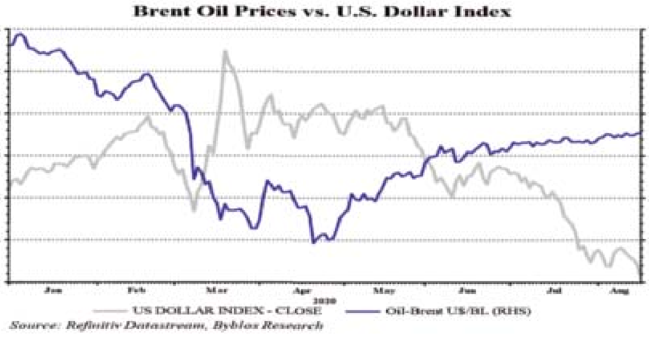
Base Metals: Copper prices recover by 42% since March 2020

LME copper cash prices closed at $6,581 per ton on August 18, constituting an increase of 42.3% from a three-year low of $4,625 a ton in March 2020, and representing their highest level since the end of June 2018. Prices have been on an upward trend since the March low, driven mainly by supply disruptions from coronavirus-related mine closures, by recovering demand, notably in China, and by stimulus from central banks around the world. More recently, prices were supported by optimism about an economic rebound in China, as well as by falling inventories and a weaker US dollar. In addition, China's copper imports grew by 81.5% year-on-year and by 16% month-on-month to a record high of 762,211 tons in July. Further, LME-registered copper inventories dropped to their lowest level in 13 years on August 18. Prices were also supported by lower output, as global copper smelting activity in July fell to its lowest level in more than two years, while China's refined copper output decreased by 5.3% month-on-month to 814,000 tons in July. In parallel, Citi Research raised its price projection for copper for the next three months from $6,200 per ton to $6,800 a ton based on expectations of a coronavirus vaccine breakthrough, a pre-elections economic package in the U.S., and of sustained economic improvement in China.
Source: Citi Research, Refinitiv

Precious Metals: Gold prices could reach $2,300 per ounce in coming six to 12 months

Gold prices reached an all-time high of $2,053 per troy ounce on August 6, 2020, up by 35% from the end of 2019, mainly due to record-high inflows to gold exchange-traded (ETFs), as investors diversified their portfolios amid the low U.S. interest rate environment and a weakening US dollar. The metal's price has slightly moderated since then and closed at $1,996 an ounce on August 18, 2020. Still, gold prices could reach $2,300 per ounce in the next six to 12 months, in case of persistently low U.S. interest rates, a weaker U.S. dollar, and a recovery in jewelry demand. In parallel, global gold demand declined by 5.9% year-on-year to 2,076 tons in the first half of 2020. The drop was due to a decrease of 46.3% in jewelry consumption, a decline of 39.5% in net purchases by central banks, and a fall of 13% in demand from the technology sector, which were partly offset by an increase of 90% in investments in ETFs and demand for bars & coins. Demand for bars & coins and investments in ETFs accounted for 54.5% of total demand in the first half of 2020, followed by jewelry consumption (27.6%), net purchases by central banks (11.2%), and demand from the technology sector (6.7%). In parallel, global gold supply declined by 6% annually to 2,192 tons in the covered period, with mine production representing 73.2% of the total.
Source: Citi Research, World Gold Council, Refinitiv

Brent Oil Prices vs. U.S. Dollar Index



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	- -	- -	- -	- -	B+ Negative	-5.2	36.9*	2.2	-	-	-	-9.1	-
Angola	CCC+ Stable	B3 Stable	B Negative	- -	CCC Negative	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+ Stable	-9.5	92.6	37.1	51.8	45	115.4	-2.4	3
Ethiopia	B Negative	B2 URD***	B Negative	 -	B+ Negative	-3	61.1	31.8**	27.2	3.6	146.2	-6.5	4.1
Ghana	B Negative	B3 Negative	B Stable	- -	BB- Stable	-7	59.6	27.9**	38.9	31.9	121.8	-3.2	6
Côte d'Ivoire	- -	Ba3 URD***	B+ Positive	- -	B+ Stable	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	- -	- -	- -	- -	CCC Negative	-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- 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 Negative	B Negative	- -	B- Negative	-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 URD***	B Stable	- -	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	B+ Stable	BB- Negative	BB- Negative	-8.4	100.2	189.9	201.7	22.3	327.6	-3.6	0.4
Iran	- -	- -	- -	B Negative	B- Negative	-4.1	30.0	2.0	-	-	-	-0.4	-
Iraq	B- Stable	Caa1 Stable	B- Negative	- -	CC+ Stable	-5.2	50.2	32.1	3.7	2.2	100.9	-6.7	1.0
Jordan	B+ Stable	B1 Stable	BB- Negative	B+ Stable	BB+ Stable	-4.0	94.8	72.1	63.6	9.4	151.0	-8.2	4.5
Kuwait	AA- Negative	Aa2 URD***	AA Stable	AA- Stable	AA- Stable	9.5	17.8	45.8	32.8	0.55	87.9	7.4	-5.5
Lebanon	SD -	C -	C -	SD -	CCC Negative	-11.7	157.8	191.3	136.8	50.1	136.2	-28.2	2.8
Oman	BB- Negative	Ba3 Negative	BB- Negative	BBB- Negative	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+ Negative	6.1	52.7	106.7	60.9	3.4	173.9	4.6	-1.0
Saudi Arabia	A- Stable	A1 Negative	A Stable	A+ Stable	A+ 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 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 (%)
Asia													
Armenia	-	Ba3	BB-	-	B-								
	-	Stable	Negative	-	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-	Baa3	BBB-	-	BBB								
	Stable	Negative	Stable	-	Negative	-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	URD***	Stable	-	Stable	-6.5	72.1	30.4	50.1	28.3	144.3	-6.1	0.87
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB	-	BBB								
	Stable	Positive	Positive	-	Stable	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Negative	Negative	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-	B+	B-								
	Stable	Negative	Stable	Stable	Stable	-3.6	29.1	-	84.3	5.9	176.4	-3.6	1.0
Ukraine	B	B3	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*
**** 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	0.00-0.25	29-Jul-20	No change	16-Sep-20
Eurozone	Refi Rate	0.00	16-Jul-20	No change	10-Sep-20
UK	Bank Rate	0.10	06-Aug-20	No change	17-Sep-20
Japan	O/N Call Rate	-0.10	15-Jul-20	No change	17-Sep-20
Australia	Cash Rate	0.25	04-Aug-20	No change	01-Sep-20
New Zealand	Cash Rate	0.25	12-Aug-20	No change	11-Nov-20
Switzerland	SNB Policy Rate	-0.75	18-Jun-20	No change	24-Sep-20
Canada	Overnight rate	0.25	15-Jul-20	No change	09-Sep-20
Emerging Markets					
China	One-year Loan Prime Rate	3.85	20-Jul-20	No change	20-Aug-20
Hong Kong	Base Rate	0.86	15-Mar-20	Cut 64bps	N/A
Taiwan	Discount Rate	1.125	18-Jun-20	No change	N/A
South Korea	Base Rate	0.50	16-Jul-20	No change	27-Aug-20
Malaysia	O/N Policy Rate	1.75	07-Jul-20	Cut 25bps	10-Sep-20
Thailand	1D Repo	0.50	05-Aug-20	No change	23-Sep-20
India	Reverse repo Rate	4.00	06-Aug-20	No change	01-Oct-20
UAE	Repo Rate	1.50	16-Mar-20	No change	N/A
Saudi Arabia	Repo Rate	1.00	16-Mar-20	Cut 75bps	N/A
Egypt	Overnight Deposit	9.25	13-Aug-20	No change	24-Sep-20
Jordan	CBJ Main Rate	2.50	16-Mar-20	Cut 100bps	N/A
Turkey	Repo Rate	8.25	23-Jul-20	No change	20-Aug-20
South Africa	Repo Rate	3.50	23-Jul-20	Cut 25bps	17-Sep-20
Kenya	Central Bank Rate	7.00	29-Jul-20	No change	29-Sep-20
Nigeria	Monetary Policy Rate	12.50	20-Jul-20	No change	21-Sep-20
Ghana	Prime Rate	14.50	27-Jul-20	No change	28-Sep-20
Angola	Base Rate	15.50	28-Jul-20	No change	28-Sep-20
Mexico	Target Rate	4.50	13-Aug-20	Cut 50bps	24-Sep-20
Brazil	Selic Rate	2.00	05-Aug-20	Cut 25bps	16-Sep-20
Armenia	Refi Rate	4.50	28-Jul-20	No change	15-Sep-20
Romania	Policy Rate	1.50	05-Aug-20	Cut 25bps	N/A
Bulgaria	Base Interest	0.00	03-Aug-20	No change	01-Sep-20
Kazakhstan	Repo Rate	9.00	20-Jul-20	Cut 50bps	07-Sep-20
Ukraine	Discount Rate	6.00	23-Jul-20	No change	03-Sep-20
Russia	Refi Rate	4.25	24-Jul-20	Cut 25bps	18-Sep-20

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