In memory of the victims of the Beirut Port explosion

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BYBLOS BANK SAL

Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Nearly sixty percent of firms consider that COVID-19 permanently affected their operations

Fitch Solutions' Global Pulse Survey showed that 57% of participants consider that the coronavirus pandemic has permanently changed the way their businesses operate. The survey, which was conducted between July 5 and August 4 2020, aims to understand the impact of the pandemic on economies, businesses and banking sectors in 78 markets across the world, out of which 64% are emerging markets and 36% are developed markets. Further, 36% of respondents expected the most significant economic impact of Covid-19 in the next 12 months to be persistently negative economic growth, followed by continued weak business sentiment (23.5%), and reduced consumer purchasing power (21%). Moreover, 54.3% of surveyed participants said that their firms made significant downward revisions to their business projections for 2020; 33.5% of respondents pointed out that their companies made short-term downward revisions with expectations that they would recover to "status quo" level by the end of 2020; while 2.8% of respondents reported that their firms made upward revisions to their 2020 business projections. In addition, 46% of respondents consider the ongoing economic disruptions from the pandemic as their biggest concern for the global banking sector in the next 18 months, followed by borrower refinancing risks (about 20%), and negative interest rates (around 14%). Specifically, participants ranked asset quality deterioration as their greatest concern for banks, followed by additional declines in the banks' profitability, and a deterioration in their capital position.

Source: Fitch Solutions

Top 1000 banks' Tier One capital-to-assets ratio at 6.9% at end-2019

The Banker magazine's annual survey of the Top 1000 banks in the world by Tier One capital indicated that their aggregate Tier One capital stood at $8,796bn at the end of 2019, constituting an increase of 6.1% from $8,292bn at end-2018, and representing its highest level on record. It added that the assets of the banks included in the survey reached $128,113bn at end-2019, up by 4.3% from $122,801bn at the end of 2018. As such, the Tier One capital-to-assets ratio of the world's Top 1000 banks increased from 6.75% at end-2018 to 6.87% at the end of 2019, compared to 5.14% at end-2009. It indicated that there were 372 banks from Asia Pacific that accounted for 37.2% of the world's Top 1000 banks, followed by 220 banks from Western Europe (22%), 198 banks from North America (19.8%), 68 banks from the Middle East (6.8%), 44 banks from Central & Eastern Europe (4.4%), 36 banks from Africa (3.6%), 33 banks from South America (3.3%), 18 banks from Central America (1.8%), seven banks from the Caribbean (0.7%), and four banks from Central Asia (0.4%). The Industrial & Commercial Bank of China (ICBC) ranked first with a Tier One capital at $380,189bn at end-2019, followed by the China Construction Bank ($316,122bn), the Agricultural Bank of China ($277,608bn), the Bank of China ($258,431bn), and JP-Morgan Chase ($214,432bn). Also, the pre-tax profits-to-assets ratio of the world's Top 1000 banks reached 0.9% in 2019 relative to 0.92% in 2018.

Source: The Banker, Byblos Research

MENA

M&A deals down 64% to $39bn in first seven months of 2020

Figures issued by Bureau Van Dijk and Zephyr show that there were 285 merger & acquisition (M&A) deals targeting companies in the Middle East & North Africa (MENA) region for a total of $38.7bn in the first seven months of 2020. In comparison, there were 354 M&A deals worth $106.3bn in the same period of 2019. As such, the number of deals decreased by 19.5%, while the amount of deals dropped by 63.6% year-on-year. The elevated value of deals in the first seven months of 2019 was mainly driven by Saudi Aramco's acquisition in March 2019 of a 70% stake in Saudi Basic Industries Corporation for $69.1bn. The amount of M&A transactions in the UAE reached $19.1bn in the first seven months of 2020 and accounted for 49.5% of the region's aggregate deal value. Bahrain followed with M&A deals of $11.6bn (30.1%), then Oman with $2.1bn (5.4%), Saudi Arabia with $1.9bn (5%), Egypt with $1.4bn (3.5%), Qatar with $1.2bn (3.1%), Iran with $877m (2.3%), Kuwait with $312m (0.8%), Jordan with $67m (0.2%), Morocco with $42m (0.1%), and Lebanon with $1m. Egypt had 106 M&A deals in the covered period, followed by the UAE with 55 transactions, Jordan and Saudi Arabia with 30 deals each, Oman with 18 transactions, Kuwait with 17 deals, and Bahrain with 12 transactions. Also, Iran had four deals, while Morocco, Lebanon and Qatar had three transactions each, Algeria had two deals, and Iraq and Tunisia had one deal each.

Source: Zephyr, Bureau Van Dijk, Byblos Research

GCC

Corporate earnings down 46% to $42bn in first half of 2020

The net income of listed companies in Gulf Cooperation Council (GCC) countries reached $41.9bn in the first half of 2020, constituting a decline of 46.3% from $78.1bn in the same period of 2019. The firms' net earnings totaled $15.7bn in the second quarter of 2020, down by 60.7% from $39.9bn in the same quarter of 2019 and by 39% from $25.6bn in the first quarter of the year. Listed companies in Saudi Arabia generated $9.5bn, or 60.5% of total corporate earnings in the second quarter of 2020, followed by listed firms in Abu Dhabi with $2.3bn (14.6%), Qatar with $2bn (12.7%), Dubai with $1.4bn (9%), Oman with $337m (2%), and Kuwait with $161.5m (1.3%). Companies in Bahrain provided results for the first half of 2020 without a quarterly split. Further, the earnings of listed firms in Kuwait decreased by 89.5% from the second quarter of 2019, followed by the income of corporates in Saudi Arabia (-68.3%), Dubai (-50.6%), Oman (-29.1%), Qatar (-18.8%), and Abu Dhabi (-12.7%). Further, the earnings of listed firms in the GCC energy sector reached $6.7bn and accounted for 42.6% of total corporate earnings in the second quarter of 2020, followed by listed banks with $6.1bn (39%), telecom firms with $1.8bn (11.6%), food, beverages & tobacco companies with $0.55bn (3.5%), and real estate firms with $0.5bn (3.3%). The income of listed energy companies decreased by 73.1% year-on-year in the second quarter of 2020, while the earnings of listed banks contracted by 33% from the second quarter of 2019.

Source: KAMCO

OUTLOOK

MENA

Oil price developments and geopolitical risks to shape regional outlook

Bank of America expected oil price developments and regional geopolitical risks to shape the outlook for the Middle East & North Africa (MENA) in the near term. It considered that a potential increase in oil prices is likely to be insufficient to support the economies of MENA oil-exporting countries.

It considered that the outcome of the 2020 U.S. presidential elections could affect the relations between the U.S. and Iran. It said that a Democratic Administration in the U.S. could negotiate and reach a new nuclear agreement with Iran, which would increase Iran's oil production and could put downward pressure on global oil prices. However, it noted that the potential negotiations between the U.S. and Iran could take time, which would allow the expected recovery in global oil demand to absorb future Iranian oil supply. It considered that Iran's challenging economic conditions could limit its capacity to wait for after the U.S. elections to initiate any talks over a new deal. In addition, it indicated that the nature of the relations between the U.S. and Iran, as well as geopolitical risks, could have important economic consequences for Jordan, Iraq and Lebanon. For instance, it considered that a deterioration in these relations could reduce domestic political support in Iraq for economic reforms and for the pursuit of an agreement with the International Monetary Fund. It also noted that improved relations between the U.S. and Iran could have positive spillover effects on the political scene in Lebanon, which could impact the timing and the shape of the new Cabinet, and the ability to implement reforms and mobilize international aid.

In parallel, the bank indicated that Saudi Arabia has been managing its macroeconomic challenges, despite the low oil price environment and the adverse impact of the COVID-19 pandemic. It anticipated Bahrain's credit profile to continue to be supported by the ongoing financial package from the Gulf Cooperation Council countries. Further, it did not expect Oman to be able to move closer to a balanced fiscal budget in the absence of structural reforms, given the expectations of a limited increase in oil prices and, therefore, of oil export receipts.

Source: Bank of America

SAUDI ARABIA

Real GDP to contract by 3.7% in 2020 and to expand by 3.3% in 2021

Jadwa Investment projected Saudi Arabia's real GDP to contract by 3.7% in 2020, following a growth rate of 0.3% in 2019, mainly due to lower activity in the oil and non-oil sectors. It forecast hydrocarbon GDP to retreat by 4.8% in 2020 as a result of lower hydrocarbon production, due to the Kingdom's compliance to the OPEC+ output agreement, as well as to its voluntary additional production cuts beyond the terms of the agreement. In parallel, it expected non-hydrocarbon GDP to shrink by 3% this year, due mainly to weaker activity in the transportation, storage & communication, wholesale & retail trade, and restaurants & hotels sectors. It anticipated Saudi Arabia's economic activity to recover and to grow by 3.3% in 2021. It expected the inflation rate to average 3% in 2020, despite the rise in the value-added tax (VAT), due to subdued consumption.

Also, Jadwa projected Saudi Arabia's fiscal deficit to widen from 4.3% of GDP in 2019 to 13.4% of GDP in 2020, mainly due to a sharp decline in hydrocarbon and non-hydrocarbon revenues, and to narrow to 4.4% of GDP in 2021. It noted that the deferral of various tax payments will affect tax revenues, while the low oil price environment and production cuts will reduce oil export receipts this year. It expected tax revenues to recover in the second half of 2020 due to the increase in the VAT rate. In addition, it forecast the public debt level to rise from 22.3% of GDP at the end of 2019 to about 31% of GDP at the end of 2020 and 2021. Further, it projected the current account balance to shift from a surplus of 5.8% of GDP in 2019 to a deficit of 0.1% of GDP in 2020, due to a decline in oil exports receipts, as well as to a drop in non-oil exports. It projected the current account deficit to shift back to a surplus of 2.7% of GDP in 2021 in case of higher oil exports receipts.

Source: Jadwa Investment

NIGERIA

Pressure on exchange rate to increase in 2021

Bank of America (BofA) expected the official exchange rate in Nigeria to be broadly stable at NGN390 against the US dollar in the remainder of 2020, relative to an earlier forecast of a weaker rate of NGN430 per US dollar by the end of the year. It considered that the naira is overvalued by 15%, as it estimated the exchange rate's fair value at NGN451 per US dollar. It anticipated Nigeria's foreign currency reserves to decline from $35.6bn currently to $28bn at the end-2020, compared to an earlier forecast of $22bn. It attributed the improved outlook for the exchange rate and the foreign currency reserves to expectations of higher global oil prices, of lower imports and of the expected approval of $1.5bn in loans from the World Bank by October 2020. Still, it anticipated the pressure on the exchange rate to increase in 2021 in case the economy and imports start to recover. As such, it forecast the exchange rate to reach NGN430 per US dollar by the second quarter of 2021, while it projected foreign currency reserves to decline to $24bn by the end of 2021.

The bank indicated that foreign currency shortages are ongoing, despite the Central Bank of Nigeria's (CBN) recent efforts to adjust the exchange rate from NGN360 per US dollar to NGN380. It pointed out that demand for foreign currency on the parallel exchange market has increased this year, with the exchange rate reaching NGN475 per dollar at mid-August, as the CBN continues to impose import restrictions and bans on offshore trading. It said that foreigners hold about $5bn worth of naira-denominated domestic debt, which implies significant risks of capital outflows. But it noted that the CBN continues to mandate the rollover of open market operation bills that come to maturity, which has helped preserve foreign currency reserves.

In parallel, BofA reduced its forecast for the current account deficit from 4.4% of GDP to 3.9% of GDP in 2020, driven by higher oil price assumptions, as well as by expectations of a 3.5% contraction in Nigeria's real GDP. It expected the fiscal deficit to reach 6% of GDP this year, while it anticipated borrowing from international financial institutions and from the domestic market to fund the deficit. It projected the public debt level to reach 35% of GDP at end-2020.

Source: Bank of America

IRAQ

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'B-/B' Iraq's long- and short-term foreign and local currency sovereign credit ratings, with a 'stable' outlook on the long-term ratings. It attributed the affirmation and the 'stable' outlook to its expectation that Iraq's foreign currency reserves, which stood at $65bn at the end of June 2020, are sufficient to support the country's external debt-servicing capacity in the next 12 months. It also anticipated Iraq to mitigate the adverse impact of the 2020 oil price shock through expenditure-side measures, as well as to meet its domestic financing needs mainly through indirect borrowing from the Central Bank of Iraq. The agency expected that the low oil price environment and the decline in oil output under the OPEC+ production cut agreement will significantly weigh on Iraq's economic activity, and will substantially weaken its fiscal and external balances in 2020. As such, it projected real GDP to shrink by 11.5% this year following a growth rate of 6.4% in 2019, and to grow by 6.5% in 2021 and by 4% in 2022. It forecast the fiscal deficit to widen from 4.9% of GDP last year to 20% of GDP this year, but to narrow to an average deficit of 7% of GDP annually during the 2021-23 period in case oil prices increase. Further, it projected the current account balance to shift from a surplus of 7% of GDP in 2019 to a deficit of 12.2% of GDP in 2020, and to return to a surplus in 2022 in case of higher oil prices and exports. It expected the government to meet its external financing needs by drawing down its foreign currency reserves and from bilateral and multilateral assistance.

Source: S&P Global Ratings

TURKEY

Gas discovery could reduce import bill by up to $11bn in 2023

Citi Research considered that Turkey's discovery of 320 billion cubic meters (bcm) of natural gas in the Black Sea would further expand Turkish exploration of natural gas. It indicated that the gas discovery, which is likely to be part of a much bigger source of natural gas in Turkish waters, is the second largest such discovery in the world so far in 2020. It noted that Turkish authorities are aiming for a delivery date of the new gas to the local market in 2023, but it considered the target date to be optimistic, given that the fastest development and extraction of natural gas reserves in history, which occurred in Guyana, took five years to materialize. It noted that Turkey will need to find experienced operators, will have to implement a tax regime that can attract capital to the hydrocarbon sector, and will need to build pipeline infrastructure to bring the gas onshore. Further, it estimated that Turkey's energy import bill could shrink by between $6bn and $11bn in 2023, or by between 0.7% to 1.3% of projected GDP, assuming a natural gas extraction rate of between 7% and 10% annually until 2023. It also estimated that the reserves could cover Turkey's gas demand for around four years, in a scenario where 65% of the discovered gas reserves are successfully recovered. In parallel, Fitch Ratings affirmed Turkey's long-term Issuer Default Ratings at 'BB-', and revised the outlook on the ratings from 'stable' to 'negative'. It mainly attributed the outlook revision to a depletion of foreign currency reserves, to weak monetary policy credibility and to a wide current account deficit, which have exacerbated external financing risks.

Source: Citi Research, Fitch Ratings

ETHIOPIA

Economic activity to remain subdued in near term

The International Monetary Fund indicated that the COVID-19 outbreak has had a significantly adverse impact on Ethiopia, and has forced authorities to reprioritize near-term macroeconomic objectives. It estimated that economic activity has considerably slowed down in the fiscal year that ended on July 7, 2020, and projected real GDP growth to remain subdued in FY2020/21 despite the authorities' efforts. It noted that the government approved in May 2020 tax relief to businesses and a supplementary budget that increases spending on healthcare and humanitarian efforts; while the National Bank of Ethiopia provided additional liquidity to support the banking system. It added that the IMF disbursed in April $412m in emergency financing under its Rapid Financing Instrument, in order to support the authorities' response to the pandemic. It anticipated industrial production, air transport, as well as the travel and tourism sectors, to be the most affected by the pandemic due to social distancing measures and weaker external demand. It considered that the risks to the outlook are significantly tilted to the downside, given the uncertainties about the magnitude and duration of the pandemic, as well as the locust infestation in some parts of the country. In parallel, the IMF considered that a transition to a market-clearing exchange rate will help address existing foreign currency shortages. It stressed that financial support from Ethiopia's international partners, including debt reprofiling, is critical to addressing the socioeconomic impact of the pandemic.

Source: International Monetary Fund

PAKISTAN

Agencies affirm sovereign ratings, outlook 'stable'

Fitch Ratings and S&P Global Ratings affirmed at 'B-/B' Pakistan's long- and short-term sovereign ratings, with a 'stable' outlook on the long-term ratings. The two agencies indicated that the ratings reflect Pakistan's challenging external position, low level of foreign currency reserves, wide fiscal deficit, and elevated public debt level. They added that the coronavirus pandemic has exacerbated these challenges by further weighing on economic activity and on public and external finances. Still, the agencies expected the authorities' policy actions and sustained external funding from bilateral and multilateral sources to support external finances. The two agencies forecast the current account deficit to remain at less than 2% of GDP in FY2020/21 amid relatively lower imports. Also, Fitch projected the State Bank of Pakistan's gross foreign currency reserves to increase from $12.5bn at end-July 2020 to about $16bn by the end of June 2021. Both agencies indicated that Pakistan's external financing requirements have moderated, in line with the narrowing current account deficit, but they forecast the government's external debt repayments to remain elevated in the coming years. Fitch added that the Group of 20 economies approved Pakistan's participation in the Debt Service Suspension Initiative, which will reduce by around $2bn the country's debt repayments to bilateral creditors in FY2020/21. In parallel, the two agencies expected the fiscal deficit at about 8.5% of GDP in FY2020/21, while they forecast the public debt level to reach around 90% of GDP at end-June 2021, which will increase debt sustainability concerns.

Source: Fitch Ratings, S&P Global Ratings

AFRICA

Coronavirus to weigh on banks' lending, asset quality and earnings

S&P Global Ratings indicated that it has taken negative actions on the ratings of banks in Africa, including in Kenya, Nigeria, and South Africa, due to the adverse impact of the coronavirus on their economies. It indicated that central banks in Africa have promptly cut interest rates and injected liquidity in order to help their respective banks navigate the coronavirus crisis. Still, it expected lending growth to remain subdued this year, as non-performing loans (NPLs) at African banks will increase due to economic recession. It projected credit losses to rise to about 2.5% to 3% in the 2020-21 period, as regulatory forbearance could delay the recognition of NPLs at banks in the region. It anticipated loan recoveries in African banking systems to slow down in the next two years, notably in Ghana, while it forecast restructured loans and write-offs to rise substantially in the region's oil-producing countries. It noted that African banks have high loan concentration and elevated lending in foreign currency, which are sources of credit risks. In addition, it expected the coronavirus crisis to weigh on the earnings of rated banks in most countries in the region rather than on their capital, despite higher credit losses. However, it considered that the pandemic could have an adverse impact on the capital position of lower-tier banks, especially in case of a sharp depreciation of the local currency. Also, it indicated that liquidity and external refinancing risks are limited in the region, except for Nigeria, where liquidity in US dollars will be tight given that foreign currency loans account for about half of the total loans of rated banks.

Source: S&P Global Ratings

DEM REP CONGO

Increase in key policy rate to weigh on banks' profitability

Moody's Investors Service indicated that the Banque Centrale du Congo's (BCC) decision to increase its benchmark interest rate from 7.5% to 18.5% on August 14 is credit negative for banks in the Democratic Republic of Congo (DRC), as it anticipated the decision to weigh on their profitability. It said that the increase in the key policy rate follows a 17% depreciation of the Congolese franc against the US dollar since January 2020, and the associated rise in the inflation rate. It indicated that the surge in the policy rate increases the cost that banks will incur to meet the reserve requirements that the BCC imposes in local currency. It added that banks buy the needed local currency from the BCC or from the interbank market at a rate that depends on the benchmark interest rate, given that banks are primarily funded by foreign currency deposits. In addition, the agency pointed out that 95% of loans and 87% of deposits at banks in the DRC were denominated in foreign currency as of June 2020. As such, it noted that the rise in the benchmark interest rate will have a limited impact on the banks' deposit growth and lending activity in foreign currency, given the high dollarization rate in the banking system. In parallel, Moody's anticipated the coronavirus pandemic to significantly reduce the banks' profitability, due to lower interest and fee income. It also projected the repayment capacity of borrowers to weaken, which will increase loan-loss provisioning at banks.

Source: Moody's Investors Service

JORDAN

NPLs ratio to increase to 8.3% at end-2020

S&P Global Ratings maintained Jordan's banking sector in 'Group 8' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '8' and industry risk score of '7'. The BICRA framework evaluates banking systems based on the economic and industry risks that they face, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 8' include Armenia, Cyprus, Georgia and Russia. The agency indicated that the economic risk score reflects "extremely high risks" in its economic resilience, "very high" credit risks in the economy, and "intermediate risks" in its economic imbalances. It expected the sector's non-performing loans (NPLs) ratio to increase from 6.2% at end-2019 to 8.3% at the end of 2020, given the contraction in economic activity. It expected the NPLs ratio to continue to increase in 2021, given the moratoria on loan payments that authorities have in place for clients affected by the coronavirus pandemic. In parallel, S&P said that the industry score reflects the country's "high risks" in its institutional framework, competitive dynamics and system-wide funding. It considered that the banks' capitalization is adequate, even though their capital adequacy ratio declined from 18.5% at the end of 2016 to 17% at end-June 2019. Further, it anticipated that the economic deterioration this year and the Central Bank of Jordan's decision to cut interest rates by 150 basis points will weigh on the banks' profitability. But it expected the banks' earnings to provide a cushion against the expected deterioration in asset quality. It noted that the trend for the industry and economic risks is 'stable'.

Source: S&P Global Ratings

KUWAIT

Bank ratings constrained by high balance sheet concentrations

In its periodic review of the ratings of nine Kuwaiti banks, Moody's Investors Service indicated that the banks' ratings benefit from a very high probability of support from the government or from a parent institution, in case of financial stress. But it noted that the majority of the banks' ratings are constrained by significant concentrations on their balance sheets. The agency said that the 'Aa3' long-term deposit rating of National Bank of Kuwait is driven by a baseline credit assessment (BCA) of 'a3', which is supported by the bank's strong asset quality, resilient profitability, and robust capital and liquidity buffers. It added that Kuwait Finance House's 'A1' rating reflects a BCA of 'baa3' that is underpinned by solid asset quality, as well as strong capitalization and profitability. Also, it pointed out that the 'A2' ratings of Al Ahli Bank of Kuwait and Ahli United Bank are based on the banks' BCAs of 'baa3', which are supported by their solid profitability, strong capital metrics, and ample liquidity. In parallel, Moody's noted that the 'A3' ratings of Gulf Bank, the Commercial Bank of Kuwait and Boubyan Bank are based on their BCAs of 'ba1' that are mainly underpinned by adequate liquidity and solid profitability. It considered that Burgan Bank's 'A3' rating is driven by a BCA of 'ba2', due to adequate liquidity, stable profitability and improved capitalization. Further, it indicated that the 'Baa2' rating of WARBA Bank is based on a BCA of 'ba3' that balances the bank's improved capitalization and ample liquidity against its rapid growth and low profitability.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil prices projected at $45 p/b at end-2020

ICE Brent crude oil front-month prices continued to trade at between $44 per barrel (p/b) and $45.9 p/b throughout most of August. They reached $45.9 p/b on August 25, their highest level since March 2020. Oil prices grew amid a temporary decline of 1.5 million barrels per day in U.S. offshore oil production due to storms in the Gulf of Mexico, while renewed concerns related to the coronavirus pandemic continue to limit the upside potential for prices. ABN AMRO Bank considered that uncertainties are rising about the sustained recovery in global oil demand, as more lockdown measures are announced worldwide, while OPEC and non-OPEC countries increased their production under the output cut agreement. It projected oil prices to decline to $35 p/b at the end of September 2020, but to rebound to $45 p/b at end-2020. In parallel, the National Bank of Kuwait expected the global oil market to tighten in the second half of 2020, as it anticipated the growth in oil demand to outpace the expansion in supply. It forecast the pace of decline in global oil inventories to accelerate in the fourth quarter of the year, and projected oil prices to increase in the remainder of the year. However, it pointed out that risks to the oil price outlook include a rise in the rate of coronavirus infections worldwide that would negatively affect global oil demand, as well as lower compliance from OPEC and non-OPEC countries to the oil production cut agreement.

Source: ABN AMRO Bank, National Bank of Kuwait, Refinitiv, Byblos Research

Middle East demand for gold bars and coins down 22% annually in first half of 2020

Net demand for gold bars and coins in the Middle East totaled 25.7 tons in the first half of 2020, constituting a decline of 22.1% from 33 tons in the same period of 2019. It accounted for 6.5% of global demand for bars and coins in the covered period. Gold demand in Iran reached 16.3 tons, representing 63.3% of the region's total demand. Saudi Arabia followed with 3.6 tons (13.8%), then the UAE with 2.6 tons (10.1%), Kuwait with 1.3 tons (5.2%), and Egypt with 0.9 tons (3.4%).

Source: World Gold Council, Byblos Research

Steel output down 5% in first seven months of 2020

Global steel production reached 1.03 billion tons in the first seven months of 2020, constituting a decrease of 5.3% from 1.08 billion tons in the same period of 2019. Production in China totaled 593.2 million tons and accounted for 57.7% of global output in the covered period. India followed with 50.3 million tons (5%), then Japan with 48.3 million tons (4.7%), the U.S. with 41.6 million tons (4.1%), Russia with 41 million tons (4%), and South Korea with 38 million tons (3.7%).

Source: World Steel Association, Byblos Research

ME&A's oil demand to decline by 7% in 2020

Consumption of crude oil in the Middle East & Africa is expected to average 11.74 million barrels per day (b/d) in 2020, which would constitute a decline of 7.2% from 12.65 million b/d in 2019. The region's demand for oil would represent 38.6% of demand in developing countries and 13% of global consumption this year.

Source: OPEC, Byblos Research

Base Metals: Copper prices recover by 45% since March 2020

LME copper cash prices closed at $6,699 per ton on August 19, constituting an increase of 44.8% from a three-year low of $4,625 a ton in March 2020, and representing their highest level since June 26, 2018. Prices moderated to an average of $6,565 per ton between August 20 and August 26, amid rising concerns about the recovery of some of the world's largest markets, as data from France, Germany and the U.S. showed that their economies are struggling to rebound from the impact of the coronavirus. Still, improving Chinese demand, lower global output, declining copper inventories, and a weaker US dollar provided support to prices. In addition, investors' optimism about progress in the trade negotiations between China and the U.S., and signs of a potential coronavirus vaccine breakthrough, kept prices at high levels. In parallel, the latest figures show that global demand for refined copper was 9.8 million tons in the first five months of 2020, down by 2.1% year-on-year, as demand regressed by about 3.5% in China and by around 8% in the world excluding China. Also, global refined copper production reached 9.85 million tons in the covered period, and increased by 0.5% annually amid higher output from Chile, the Democratic Republic of the Congo and Japan. This was partially offset by lower production in China, India and Zambia.

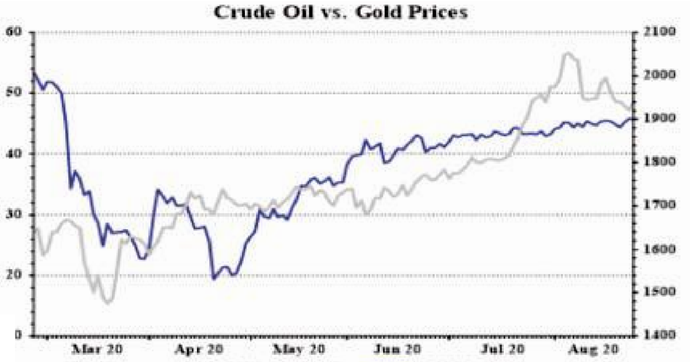
Source: International Copper Study Group, Refinitiv

Precious Metals: Palladium prices to average $2,183 per ounce in 2020

Palladium prices declined from an average of $2,279 per troy ounce in the first quarter of 2020 to $1,968 an ounce in the second quarter of the year, mainly due to weakening autocatalyst demand amid the coronavirus outbreak. However, prices have been on an upward trend so far in the second half of 2020, as they increased from an average of $2,040 an ounce in July to an average of $2,170 per ounce through most of August and closed at $2,176 per ounce on August 26. The recent rise in the metal's price has been due to developments on the demand and supply sides. On the demand side, palladium consumption from the automotive sector, which accounts for 80% of the metal's global demand, has gradually been recovering from the pandemic-induced global economic downturn. On the production side, persistent disruptions to supply from South Africa have also supported the metal's price. Prices are projected to increase to an average of $2,150 per ounce in the third quarter of 2020 and to $2,300 an ounce in the fourth quarter of the year, in case of a recovery in autocatalyst demand. Palladium prices are forecast at $2,183 per ounce in 2020 and $2,325 an ounce in 2021.

Source: ABN AMRO Bank, Refinitiv, Byblos Research

Crude Oil vs. Gold Prices



Source: Refinitiv Datastream, Byblos Research

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	Usable Reserves / CAPs* (months)	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								
Africa													
Algeria	-	-	-	-	B+								
	-	-	-	-	Negative	-4.8	-	-	-	-	-	-21.4	-
Angola	CCC+	B3	B-	-	CCC								
	Stable	Stable	Stable	-	Negative	-4.0	127.1	7.7	91.1	45.4	122.9	-14.4	9.5
Egypt	B	B2	B+	B+	B+								
	Stable	Stable	Stable	Stable	Stable	-8.3	86.5	6.0	71.4	44.8	120.1	-4.6	1.8
Ethiopia	B	B2	B		B+								
	Negative	Negative	Negative	-	Negative	-3.2	31.3	2.3	64.8	4.5	175.3	-7.3	2.0
Ghana	B	B3	B	-	BB-								
	Negative	Negative	Stable	-	Negative	-9.0	66.7	2.7	49.6	52.1	128.0	-4.3	3.8
Côte d'Ivoire	-	Ba3	B+	-	B+								
	-	Stable	Positive	-	Stable	--5.5	43.2	4.8	-	14.4	-	-4.0	0.2
Libya	-	-	-	-	CCC								
	-	-	-	-	Negative	-	-	-	-	-	-	-	-
Dem Rep	CCC+	Caa1	-	-	CCC								
Congo	Stable	Stable	-	-	Stable	-1.5	12.6	0.3	6.4	1.9	120.7	-5.3	2.5
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Stable	Stable	Negative	-	Stable	-7.4	61.6	6.0	40.4	9.2	101.3	-8.9	1.0
Nigeria	B-	B2	B	-	B-								
	Stable	Negative	Negative	-	Negative	-5.0	47.6	4.5	62.1	56.7	130.1	-6.6	0.2
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-	-	-	-	-	-	-	-
Tunisia	-	B2	B	-	B+								
	-	URD**	Stable	-	Negative	-4.7	81.0	4.2	-	11.9	-	-8.3	0.5
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-5.0	46.7	0.5	28.51	5.18	140.33	-5.52	0.5
Rwanda	B+	B2	B+	-	B+								
	Negative	Stable	Stable	-	Stable	-12.46	67.5	4.76	30.01	7.51	124.17	-16.44	1.0
Middle East													
Bahrain	B+	B2	B+	BB-	BB-								
	Stable	Stable	Stable	Negative	Negative	-12.1	114.4	-0.9	207.3	33.9	349.5	-10.1	2.2
Iran	-	-	-	B	BB-								
	-	-	-	Negative	Negative	-9.3	-	-	-	-	-	-5.0	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Negative	-	Stable	-17.5	84.4	-0.1	6.9	8.3	140.9	-11.0	-1.0
Jordan	B+	B1	BB-	B+	BB+								
	Stable	Stable	Negative	Stable	Stable	-5.0	85.6	1.7	82.9	11.6	170.0	-6.8	1.5
Kuwait	AA-	Aa2	AA	AA-	AA-								
	Negative	URD**	Stable	Stable	Stable	-9.7	11.6	2.1	72.6	0.9	160.6	-13.6	0
Lebanon	SD	C	C	SD	CCC								
	-	-	-	-	Negative	-12	197.2	7.5	143.0	80.3	149.7	-5.1	1.5
Oman	BB-	Ba3	BB-	BBB-	BBB-								
	Negative	Negative	Negative	Negative	Negative	-16.5	83.8	1.7	43.5	11.4	144.6	-15.6	3.8
Qatar	AA-	Aa3	AA-	AA-	A+								
	Stable	Stable	Stable	Stable	Negative	-0.6	84.6	3.1	201.8	8.5	242.2	-4.9	-1.5
Saudi Arabia	A-	A1	A	A+	A+								
	Stable	Negative	Stable	Stable	Stable	-12.6	35.6	19.7	21.9	3.3	48.5	-9.8	-1.1
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-	-	-	-	-	-	-	-
Yemen	-	-	-	-	CC								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-

COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch (LT Foreign currency rating)	CI	IHS	General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	Usable Reserves / CAPs* (months)	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	-5.0	62.0	-	-	9.9	-	-8.5	0.9
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-11.1	56.0	14.4	47.0	2.2	66.7	1.2	0.4
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Negative	Negative	-	Negative	-11.5	84.6	10.6	56.8	32.1	84.1	-0.9	1.1
Kazakhstan	BBB-	Baa3	BBB	-	BBB-								
	Stable	Positive	Stable	-	Negative	-5.1	20.9	5.4	34.9	8.9	100.0	-5.9	3.4
Pakistan	B-	B3	B-	-	CCC								
	Stable	Stable	Stable	-	Stable	-9.5	88.2	0.5	42.7	61.2	145.8	-1.5	0.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	-4.0	25.6	2.8	32.0	1.6	104.9	1.9	0.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Negative	Negative	Stable	-	-	-8.0	46.2	4.0	28.0	4.9	101.5	-4.8	0.5
Russia	BBB-	Baa3	BBB	-	BBB-								
	Stable	Stable	Stable	-	-	-6.8	22.9	13.0	23.7	4.9	58.3	0.8	0
Turkey	B+	B1	BB-	B+	B-								
	Stable	Negative	Negative	Stable	-	-5.0	38.0	1.8	83.6	9.5	161.9	-1.0	0.5
Ukraine	B	B3	B	-	B-								
	Stable	Stable	Stable	-	-	-7.1	65.1	3.8	55.0	7.3	118.5	-6.0	0.5

** Current account payments*

*** Under Review for Downgrade*

Source: S&P Global Ratings, Fitch Ratings, Moody's Investors Service, CI Ratings, IHS Markit, Byblos Research - The above figures are projections for 2020

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-Aug-20	No change	21-Sep-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	27-Aug-20	No change	14-Oct-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	20-Aug-20	No change	24-Sep-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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