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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

PE and VC deals in battery storage systems at $17.9bn in year-to-August 22, 2024

&P Global Market Intelligence indicated that the aggregate amount of private equity and venture capital (PE/VC) investments in battery energy storage systems reached $17.86bn in the year-to-August 22, 2024 period, constituting an increase of 10.5% from $16.2bn in full year 2023. PE/VC investments in battery energy storage systems totaled $4.7bn in 2020, $27.2bn in 2021, and $35.3bn in 2022. Also, PE/VC investments in battery energy storage systems stood at $4.4bn in the first quarter of 2024, $9.9bn in the second quarter, and $3.6bn in the year-to-August 22, 2024 period. In comparison, PE/VC investments in battery energy storage systems amounted to $2.9bn in the first quarter, $3.2bn in the second quarter, $8.8bn in the third quarter, and $1.4bn in the fourth quarter of 2023. In parallel, PE/VC deals in battery energy storage systems stood at 151 transactions in the year-to-August 22, 2024 period, compared to 324 PE/VC deals in full year 2023. Also, 174 PE/VC deals took place in 2020, 316 PE/VC deals in 2021, and 371 PE/VC deals in 2022. Further, PE/VC deals in battery energy storage systems reached 64 in each of first and second quarters of 2024 and 23 transactions in the year-to-August 22, 2024 period. In comparison, there were 77 PE/VC deals in battery energy storage systems in the first quarter, 88 transactions in the second quarter, 94 deals in the third quarter, and 65 transactions in the fourth quarter of 2023.

Source: S&P Global Market Intelligence

EMERGING MARKETS

GSSS bonds issuance at $671.2bn in 2012-23 period

Figures released by the International Finance Corporation show that emerging markets (EMs) issued $671.2bn in green, social, sustainability and sustainability-linked bonds (GSSS bonds) in the 2012-23 period. It noted that EMs issued $466.2bn in green bonds in the covered period and accounted for 69.5% of aggregate EM GSSS bonds, followed by sustainability bonds with $106bn (15.8%), sustainability-linked bonds with $55.9bn (8.3%), and social bonds with $43.1bn (6.4%). It pointed out that China issued $292.5bn in green bonds in the covered period, followed by Latin America & the Caribbean (LAC) with $48.1bn of such bonds, East-Asia & the Pacific excluding China with $47.2bn, Emerging Europe & Central Asia with $45.5bn, the Middle East & North Africa (MENA) region with $27.8bn, and Sub-Saharan Africa (SSA) with $5.1bn. It stated that LAC issued $31.7bn in social bonds in the covered period, followed by East-Asia & the Pacific ex-China with $6bn of such bonds, China with $3.5bn, SSA with $1.1bn, Emerging Europe & Central Asia with $0.7bn, and the MENA region with $0.1bn. It said that LAC issued $53.9bn in sustainability bonds in the 2012-23 period, followed by East-Asia & the Pacific ex-China with $26.4bn of such bonds, Emerging Europe & Central Asia with $11.9bn, the MENA region with $7.1bn, China with $5.6bn, and SSA with $1.1bn. It added that LAC issued $39.5bn in sustainability-linked bonds in the covered period, followed by China with $6.5bn of such bonds, East-Asia & the Pacific ex-China with $5bn, Emerging Europe & Central Asia with $3.9bn, the MENA region with $0.6bn, and SSA with $0.4bn.

Source: International Finance Corporation

GCC

Travel and tourism to contribute 11.4% of GDP in 2024

The World Travel & Tourism Council estimated that the travel and tourism sector in the Gulf Cooperation Council (GCC) countries contributed 10.8% of the region's GDP in 2023 compared to 9.7% of GDP in 2019. It estimated that the broad travel & tourism (T&T) sector generated $223.4bn in revenues in 2023, constituting an increase of 19.2% from $187.4bn in 2019. It pointed out that the T&T industry in GCC employed 4.04 million persons in 2023, up by 17.3% from 3.44 million jobs in 2019. As such, the industry accounted for 14.2% of the region's total employment in 2023 compared to a share of 13% in 2019. In parallel, it estimated the aggregate international spending by visitors in GCC at $135.5bn in 2023 relative to $105.1bn in 2019, while spending by local visitors on T&T reached $67.4bn in 2023, up by 29% from $52.3bn in domestic spending in 2019. Leisure spending by visitors to GCC economies totaled $167.6bn in 2023 compared to $123.2bn in 2019, while business spending reached $35.3bn relative to $34.16bn in 2019. In parallel, it projected the contribution of the T&T sector to the region's GDP at $247.1bn in 2024 and at $371.2bn in 2034, which would be equivalent to 11.4% of this year's GDP and 13.3% of GDP in 2034. It forecast the employment in the T&T sector at 4.3 million jobs in 2024, or 14.8% of total employment in GCC this year, and at 5.65 million jobs or 16.3% of the region's total employment in 2034. It projected international spending by visitors to GCC countries at $151.1bn in 2024 and $223.7bn in 2034, and anticipated domestic spending at $72.7bn in 2024 and $108.3bn in 2034.

Source: World Travel & Tourism Council

Fixed income issuance up 75% to $139bn in first eight months of 2024

Fixed income issuance in Gulf Cooperation Council (GCC) countries reached $138.8bn in the first eight months of 2024, constituting a surge of 75% from $79.3bn in the same period of 2023. Fixed income issuance in the first eight months of the year consisted of $49bn in corporate bonds, or 35.3% of the total, followed by $37.3bn in sovereign sukuk (27%), $30.3bn in sovereign bonds (21.8%) and $22.2bn in corporate sukuk (16%). Further, aggregate bonds and sukuk issued by corporates in the GCC stood at $71.2bn in the first eight months of 2024, or 51.3% of fixed income output in the region; while issuance by GCC sovereigns reached $67.6bn, or 48.7% of the total. GCC sovereigns issued $30.5bn in bonds and sukuk in January, $2.3bn in February, $2bn in March, $14.1bn in April, $8.6bn in May, $5.8bn in June, $2.8bn in July, and $1.5bn in August 2024. GCC companies issued $13.6bn in bonds and sukuk in January, $8.2bn in February, $10.5bn in March, $4.6bn in April, $7.9bn in May, $6.8bn in June, $17.3bn in July, and $2.3bn in August 2024. In parallel, corporate output in August 2024 included $140m in bonds and $88m in sukuk issued by companies in Saudi Arabia, $35m in bonds and $490m in sukuk issued by firms based in the UAE, and $45.5m in bonds issued by companies in Qatar. Also, sovereign proceeds in the covered month consisted of $630.6m in bonds and $493.5m in sukuk that Qatar issued, and $398m in bonds issued by Bahrain.

Source: KAMCO, Byblos Research

POLITICAL RISKS OVERVIEW - August 2024

ARMENIA

Yerevan and Baku agreed to remove the clause related to the opening of regional transport routes, including the Zangezur corridor project, from the draft peace treaty that the two sides are currently negotiating. Yerevan restated its June proposal to establish a bilateral mechanism with Baku to investigate alleged ceasefire violations along the border of the two countries.

BANGLADESH

Anti-government protests escalated in early August, after the easing of a curfew that the government imposed and the partial resumption of internet access, as demonstrators accused Prime Minister Sheikh Hasina if nepotism and corruption and called on her to resign. The protests resulted in the killing of around 100 citizens. As a result, PM Hasina resigned and fled to India on August 5, 2024. Further, Bangladesh's President Mohammed Shahabuddin nominated Muhammad Yunus as the head of an interim government, which took oath on August 8. Mr. Yunus pledged to undertake meaningful and deep reforms, saying that free and fair elections would take place after the interim government fulfills its mandate of carrying out necessary reforms related to different sectors in the country.

EGYPT

The Egyptian Minister of Foreign Affairs met the Operations Commander of the European Union's Naval Force in the Red Sea, which is an EU mission tasked with protecting international shipping in the Red Sea from attacks by the Yemeni Huthi rebels. The ministry stressed the need for joint efforts to reassure international shipping companies and provide a safe environment for ship passage in the Red Sea.

ETHIOPIA

The National Election Board of Ethiopia registered the Tigray People's Liberation Front as a political party under "special circumstances", saying that it must conduct a general assembly within six months and choose a new leadership to finalize its registration. The faction, led by Tigray Interim Administration President Getachew Reda, advocated closer ties with the federal government. clashes between security forces and Fano militants persisted in the Amhara region, and conflicts continued in Oromia amid tensions with the Oromo Liberation Army.

IRAN

Regional tensions soared after the assassination of the chairman of the Hamas Political Bureau in Tehran. Further, Parliament approved President Masoud Pezeshkian's proposed Cabinet, which includes reformists, marking the first time in more than two decades that the legislature endorsed all of the proposed candidates. In parallel, the U.S. Treasury sanctioned Iranian companies, individuals and vessels for their alleged involvement in shipping Iranian goods to Yemen on behalf of the Huthis.

IRAQ

Iraq and Türkiye held a fourth High-Level Security Mechanism meeting in Ankara and signed a Memorandum of Understanding on military, security and counter-terrorism cooperation. Ankara continued its military operations against the Kurdistan Workers' Party (PKK) in Iraq. The Supreme Judicial Council ruled to dissolve three Kurdish parties, the Yazidi Freedom and Democracy Party, the Democratic Struggle Front, and the Party of Kurdistan Society's Freedom for their association with the PKK. In addition, nine months after provincial elections took place, the Kirkuk province elected Rebwar Taha, a member of the Patriotic Union of Kurdistan, as its new governor amid protests from the Kurdistan Democratic Party and the Iraqi Turkmen Front.

LIBYA

Relations between the Tripoli-based and the Tobruk-based governments deteriorated significantly amid confrontations over the leadership of the Central Bank of Libya (CBL) and military maneuvers, which threatened to undermine the fragile truce between the two sides. The Tripoli-based government expelled two Egyptian intelligence officers in reprisal for Cairo's invitation to the non-internationally recognized east-based Prime Minister Osama Hammad. In response, the eastern House of Representatives (HoR) declared PM Hammad's administration as the "legitimate government" of Libya. Earlier, the Chairman of the High State Council (HSC), who is seeking an agreement on a new unified government with the HoR, installed himself as president of the western-HSC after claiming one more vote in internal elections of the HSC than Mohamed Tekkala, the outgoing president and ally of the Tripoli-based PM Abdul Hamid Dabaiba. As a result, Mr. Tekkala contested the result in court. Also, the Presidency Council issued a decree about dismissing the governor of the CBL Siddiq Elkebir, and called on Mohammed Shukri to take his place. But the HoR confirmed governor Elkebir in the post. In parallel, the east-based government ordered the closure of oilfields controlled by Field Marshal Khalifa Haftar due to a dispute, which resulted in a drop in daily oil barrel production from 1.4 million barrels per day (b/d) to 590,000 b/d.

SUDAN

Fighting between the Sudanese Armed Forces and the Rapid Support Forces escalated in North Darfur, while clashes subsided in the east amid seasonal rains. Also, the U.S.-led peace talks led to outcomes on aid deliveries amid deteriorating humanitarian conditions in the country. Further, mediators in peace talks announced that they had secured commitments from parties to allow aid to flow from Chad to Darfur and to enhance the protection of civilians.

TUNISIA

The electoral body approved the candidacy of three politicians to run in the presidential elections of October 6, out of 108 who submitted their nominations. The candidates are incumbent President Saïed, businessman Ayachi Zammel, and the Secretary General of the Arab nationalist Echaab movement Zouhair Maghzaoui. Further, President Saïed announced the reshuffling of the government and appointed 19 new ministers, including those responsible for defense, foreign affairs, and the economy.

YEMEN

Huthi rebels continued their attacks on international shipping in the Red Sea and the Gulf of Aden. The Huthis appointed a new government, 11 months after dismissing the previous government. The Huthis intensified the arrests and harassment of aid workers, as they raided the United Nations Human Rights office in Sana'a and broadcast the forced confessions of detainees about admitting to "westernizing" the Yemeni society. Tensions driven by economic hardship and by divisions in the Presidential Leadership Council escalated in the South.

Source: International Crisis Group, Newswires

OUTLOOK

WORLD

Growth to average 2.5% in 2024-25 period, uncertainties to outlook remain

Citi Research projected the global real GDP growth rate at 2.5% in each of 2024 and 2025, and said that the global economy is facing a period of heightened uncertainties in the next few months related mainly to the growth outlook in the U.S. But it expected any resulting strains to be temporary, as central banks around the world shift their monetary policy to a more supportive stance in the near- to medium term, which should help mitigate the headwinds. It considered that economies around the world are currently in the final stage of the post-pandemic recovery and that the global economy is still feeling the lagged effects of tight monetary policy. It forecast the real GDP growth rate in advanced economies (AEs) at 1.4% in each of 2024 and 2025, as it expected real GDP growth in the U.S. to decelerate from 2.2% in 2024 to 1.8% and for economic activity in the Euro Area to improve from 0.7% this year to 1% next year. Also, it forecast the real GDP growth rate in emerging markets (EMs) at 3.9% in 2024 and 3.8% in 2025. It projected economic activity in Emerging Asia to slow down from 4.8% in 2024 to 4.4% in 2025. It forecast real GDP growth in Emerging Europe to accelerate from 2.2% this year to 2.7% next year and for economic growth in Latin America to expand from 1.8% in 2024 to 2.2% in 2025. Also, it expected the real GDP in the Middle East & Africa region to increase by 2.2% this year and by 3.7% next year.

Further, it projected the inflation rate in AEs to decelerate from 3.4% this year to2.6% in 2025, and expected the inflation rate in EMs to slow from 4.5% in 2024 to 3.4% next year. It noted that the deceleration in inflation has paved the way for a sustained easing of central banks' monetary policy, and expected the rate-cutting cycle to accelerate through the end of 2024. It added that monetary policy remains historically tight in many countries, which provides substantial scope for rate cuts.

In addition, it projected the fiscal deficit in AEs to narrow from 5.1% of GDP in 2024 to 4.8% of GDP in 2025 and for the deficit in EMs to contract from 4.2% of GDP this year to 3.9% of GDP next year. Also, it anticipated the public debt level in AEs to increase from 114.2% of GDP in 2024 to 116.3% of GDP next year, and for the public debt level in EMs to rise from 73.8% of GDP this year to 74.6% of GDP in 2025. Further, it forecast the current account deficit in AEs to narrow from 1.2% of GDP in 2024 to 0.7% of GDP in 2025, and for the current account surplus in EMs to decrease from 1.4% of GDP this year to 1% of GDP next year.
Source: Citi Research

Rising geopolitical tensions to affect seaborne trade

Global reinsurer Swiss Re indicated that rising geopolitical risks pose a threat to global trade flows, as higher trade tensions and wars could impact maritime shipping volumes and demand for goods in the near term. It also considered that higher trade tariffs could significantly weigh on marine shipping, as the trade in global goods is largely seaborne. It noted that economic sanctions that have impacts on global trade are increasingly widespread, given that the share of countries subject to financial sanctions nearly doubled from 30% to 35% between 2012 and 2017 to almost 60% in 2022. It pointed out that ocean shipping volumes may grow at a slower pace starting in 2025, as protectionism, mainly in the United States, would significantly diminish imports to the U.S., given that the latter would enact policies that restrict international trade to support domestic industries. Further, it considered that the net-zero transition is an additional source of uncertainty for the maritime industry, as ship owners are facing costs associated with the shifting of their fleets to lower carbon fuels, given that only about 6% of the capacity of the global shipping fleet is currently equipped for such fuels.

In parallel, it indicated that marine insurance is particularly exposed to geopolitical risks. First, it said that alternative shipping routes to the Red Sea are longer and increase uncertainties. Second, it noted that port congestion around the world can lead to higher risks for insurers. Third, it pointed out that any escalation of the conflict in the Middle East or the emergence of new geopolitical troubles elsewhere in the world would create challenges for marine insurers, as conflicts in the Strait of Malacca, the Strait of Hormuz and the Bosporus Strait have the potential to generate losses for insurers. Fourth, it stated that trade tensions have the potential to directly impact demand for marine insurance through reduced trade flows.
Source: Swiss Re

TÜRKIYE

Economic soft landing contingent on sustainable reforms

Barclays Capital projected Türkiye's real GDP growth rate to moderate from 5% in 2023 to 3% in 2024, despite higher investments, elevated exports, and strong domestic consumption. It also forecast the economy to grow by 3.2% in 2025, as it anticipated lower interest rates to support economic activity. Further, it expected the inflation rate to decline from 64.8% in 2023 to 44.2% in 2024 and 30.3% in 2025, given that the Central Bank of the Republic of Türkiye (CBRT) is maintaining its strategy of real effective exchange rate appreciation. It considered that the process of disinflation in the 2024-25 period will be supported by keeping the policy rate unchanged when the inflation rate decreases to less than 50%, as well as by the tightening of fiscal policy as signaled in the recently announced fiscal targets as part of the government's Medium Term Program for the 2025-27 period. Also, it anticipated the CBRT to start cutting its policy rate in November 2024 by 2.5 percentage points and to continue its monetary easing cycle at an even pace until it reaches a terminal rate of 25% in 2025.

In parallel, it projected the fiscal deficit to narrow from 5.2% of GDP in 2023 to 4.8% of GDP in 2024 and 4% of GDP in 2025, as the authorities are limiting public spending. Also, it forecast the current account deficit to narrow from 4.1% of GDP in 2023 to 1.6% of GDP in 2024 and 1.9% of GDP in 2025, as the government is aiming for a soft landing for the economy. It expected the current account deficit to reach $18bn this year and $23bn in 2025, driven by a decrease in the import bill amid lower imports of core goods, gold and energy. It said that the CBRT's strategy of maintaining a strong local currency is the most important driver of the slowdown in the imports of core items.
Source: Barclays Capital

SAUDI ARABIA

Outlook on sovereign ratings revised to 'positive' on sustained reforms momentum

S&P Global Ratings affirmed Saudi Arabia's short- and long-term local and foreign currency sovereign credit ratings at 'A-1' and 'A', respectively, and revised the outlook on the long-term ratings from 'stable' to 'positive'. It attributed the outlook revision to expectations that the government's wide-ranging reforms and investments will support the development of the non-oil economy without putting at risk the sustainability of public finances. It added that the outlook takes into account Saudi Arabia's economic resilience against the ongoing volatility in the hydrocarbon sector. However, it said that a sharper fall in global oil prices and production volumes, as well as its impact on public finances, along with the tight supply of oil, would weight on the macroeconomic outlook in the long-term, despite the economic diversification efforts. Also, it stated that the ratings are supported by the continued execution of Vision 2030 initiatives that will boost non-oil activity in the medium term, and by the Kingdom's strong net asset position that it forecast to exceed 40% of GDP in the 2024-27 period. In addition, it projected the current account surplus to average 1.2% of GDP in the 2024-27 period, as it expected the gradual increase in oil production volumes starting in 2025, relatively favorable oil prices, and rising tourism receipts to narrowly outpace the strong expected growth in imports. Further, it forecast the Kingdom's gross external financing needs at 65.9% of current account receipts plus usable reserves in 2024, and at 69.7% and 71.4% of such receipts and reserves in 2025 and 2026, respectively. In parallel, it indicated that it could upgrade the ratings if the implementation of reforms leads to the increase in GDP per capita and/or if measures to strengthen institutions support the development of domestic capital markets.
Source: S&P Global Ratings

EGYPT

Outlook on sovereign ratings revised to 'stable'

Capital Intelligence Ratings affirmed Egypt's short- and long-term local and foreign currency ratings at 'B' and revised the outlook on the long-term ratings from 'negative' to 'stable'. It attributed the outlook revision to the decline in Egypt's external financing risks and the improvement of the country's shock absorption capacity. It noted that the ratings and outlook take into account the agency's expectation that the government will maintain the reform momentum and continue to operate a flexible exchange rate regime in the short- to medium term in order to stabilize the economy. It considered that this should help reduce Egypt's vulnerability to external shocks and increase its foreign currency reserves to provide adequate coverage of its short-term external debt. Further, it said that the ratings are supported by the sovereign's moderate external indebtedness, and by the government's commitment to fiscal reforms. But it pointed out that the ratings are constrained by persistent weaknesses in public finances, elevated debt servicing cost, large socioeconomic imbalances, and high geopolitical risks. In parallel, it said that it could revise the outlook from 'stable' to 'positive' in the next 12 months if the government manages to reduce its external financing risks.
Source: Capital Intelligence Ratings

ALGERIA

Country risk level assessment maintained

In its annual assessment of the country risk level in Algeria, the insurance rating agency A.M. Best maintained Algeria in the Country Risk Tier 5 (CRT-5) category, the lowest segment on its scale of country risk classification. It said that the Country Risk Tiers (CRTs) reflect its assessment of economic, political, and financial system risks in a country, and range from CRT-1, or a Very Low Level of Country Risk, to CRT-5 or a Very High Level of Country Risk. It indicated that the International Monetary Fund projected Algeria's real GDP growth rate at 3.8% in 2024, driven by the hydrocarbons sector and by the strong performance of the services and construction sectors. It also anticipated the inflation rate at 7.6% in 2024, due mainly to higher food prices. Also, it assessed the level of Economic Risk as "High". It stated that the economy is driven by the energy sector, as hydrocarbons revenues account for 95% of exports and for 50% of public receipts. Also, it pointed out that the government's policy has recently encouraged foreign direct investments, given that the economy relies on state-owned enterprises to encourage the development of local industries. Further, it expected fiscal expenditures to remain elevated in the near term, driven by higher public wages, food subsidies and targeted unemployment assistance. In addition, it considered that Algeria has a "Very High" level of Financial System Risk, given that non-performing loans remain a drag on the banks′ balance sheet. Further, it assessed the Political Risk level in the country as "High", as it considered that graft remains an obstacle to conducting business in the country and that the judicial system could be subject to political influence.
Source: A.M. Best

TUNISIA

Sovereign ratings upgraded on government's ability to meet financing needs

Fitch Ratings upgraded Tunisia's long-term foreign currency issuer default rating from 'CCC-' to 'CCC+', which is seven notches below investment grade. It attributed the upgrade to the increased confidence in the government's ability to meet its large fiscal financing needs by maintaining its foreign currency reserves at a sufficient level to meet current external payments and debt obligations. But, it noted that the ratings are constrained by still-elevated financing needs, limited access to external financing, uncertainties about the ability and willingness of the banking sector to take on large volumes of domestic debt, and a budget that remains vulnerable to external shocks. It expected the fiscal financing needs, excluding short-term amortizations, at 18% of GDP in 2024 and at more than 14% of GDP in the 2025-26 period. Also, it anticipated foreign currency reserves to remain above three months of current external payments through 2026. Also, it forecast the public debt level at 83.4% of GDP in 2024, 82.2% of GDP in 2025 and 80.8% of GDP in 2026, as the debt is highly sensitive to the depreciation of the local currency and fiscal shocks. In parallel, the agency noted that it could upgrade the ratings if the authorities implement reforms that contribute to a narrower fiscal deficit and lower debt level, and/or if access to external financing improves. But it said that it could downgrade the ratings in case financing stress increases and/or if pressures on the external accounts rise.
Source: Fitch Ratings

BANKING

SAUDI ARABIA

Banking sector resilient to shocks

The International Monetary Fund indicated that the banking sector in Saudi Arabia is sound, solvent and liquid. It noted that the sector's aggregate capital adequacy ratio was 20.1% at the end of 2023 compared to 19.9% a year earlier, while the Tier One Capital ratio stood at 18.6% at end-2023 relative to 18.4% at end-2022. It pointed out that the banks' liquid assets accounted for 21.8% of total assets at end-2023 relative to 22.8% at end-2022. Also, it noted that the banks' asset quality is strong, as the sector's non-performing loans (NPLs) ratio declined from 1.8% at end-2022 to 1.5% at end-2023, while total provisions increased from 124.5% of gross NPLs at end-2022 to 129.8% of NPLs at end-2023. In parallel, it indicated that the Saudi banking sector is dynamic and competitive, with total assets equivalent to 99% of GDP at end-2023, up from 88% of GDP at end-2017, and that customer deposits accounted for 96.1% of net loans at end-2023 compared to 97.5% of loans at end-2022. It added that financial linkages between banks and the government deepened significantly, as deposits of government-related entities represented 31.5% of total deposits at end-March 2024, while the banks' claims on the public sector have accounted for 17% of total bank assets since 2019. Also, it noted that the banks' return on equity increased from 12.5% in 2022 to 12.8% in 2023, and their pre-tax return on assets improved from 2.1% in 2022 to 2.2% in 2023. It added that the stress tests of the 2024 Financial Sector Assessment Program, which incorporated the impact of a global recession, commodity price volatility, delays in investments, and higher interest rates, have shown that Saudi banks are resilient to severe macroeconomic shocks. It noted that banks have enough capacity to manage liquidity stress.

Source: International Monetary Fund

PAKISTAN

Monetary easing cycle dependent on event risks and IMF's program approval

JPMorgan Chase & Co. indicated that the State Bank of Pakistan (SBP) reduced its policy rate by 200 basis points (bps) from 19.5% to 17.5% in its September 2024 meeting, due to the stronger pace of disinflation in July and August of this year amid the recent moderation in global oil and food prices. It added that stable foreign currency reserves, the repricing of government bonds in the secondary market, and lower inflation expectations among businesses supported the monetary policy easing. Further, it expected the SBP to frontload its easing cycle by cutting its policy rate by an additional 200 bps in November and December 2024. Also, it anticipated a 100 bps rate cut pace in the first half of 2025. As such, it forecast the policy rate to drop from 17.5% in September 2024 to 10.5% in the fiscal year that ends in June 2025. However, it considered that the easing of monetary policy is subject to event risks related to the presidential election in the U.S. that could impact interest rate cuts by the U.S. Federal Reserve and the trajectory of the exchange rate of the US dollar. It added that the prolongation of the easing cycle is linked to the approval of the International Monetary Fund's Executive Board of an Extended Fund Facility for the country. In parallel, it said that Pakistan's foreign currency reserves stand at $9.2bn currently, slightly above its external financing gap of $8bn for FY2024/25.

Source: JPMorgan Chase & Co

IRAQ

Central Bank to implement sustainable financing roadmap for 2023-29 period

The Central Bank of Iraq (CBI) indicated that it is working with the International Finance Corporation, the private sector arm of the World Bank, to implement best international practices in the field of financial sustainability as well as environmental, social, and governance (ESG) standards in the Iraqi banking sector. It noted that the roadmap for financial sustainability for the 2023-29 period aims to ensure that the performance of Iraqi banks in the field of ESG standards is consistent with sustainable financing practices and is comparable to its global counterparts. Further, it pointed out that the basic pillars of the financial sustainability roadmap for the 2023-29 period consist of increasing awareness and capacity for sustainable financing, enhancing environmental and social risk management and corporate governance, encouraging sustainable financial flows, and promoting transparency and market discipline. In addition, it indicated that the CBI will focus on how adherence to enterprise risk management principles goes beyond regulatory compliance to become a strategic advantage for Iraqi banks; on the importance of integrating ESG standards into investment decisions and into environmental and social risk management systems; and on ESG capacity-building. In parallel, it said that the sustainable financing roadmap for the 2023-29 period aims to maintain monetary and financial stability, protect depositors, investors and shareholders, as well as to promote financial inclusion and the use the excess liquidity of private banks to finance small- and medium-sized enterprises.

Source: Central Bank of Iraq

BAHRAIN

Banking sector has high level of liquidity

Moody's Ratings placed the Bahraini banking sector's Country Risk level in the "Weak+" category, along with Armenia, Bangladesh, Costa Rica, the Dominican Republic, Georgia, Kenya and Oman. It said that the banks are facing credit challenges that are alleviated by financial support from Gulf Cooperation Council (GCC) countries. It noted that the lack of transparency in Bahrain's few large family-owned businesses, as well as loan concentration, are weighing on the banking sector, which makes the banks vulnerable to a single default by one of their large clients. It pointed out that the non-performing loans ratio increased from 3.4% at end-2022 to 3.6% at end-2023, reflecting the lagged impact of the banks' withdrawal of forbearance measures in June 2022. But it considered that the deterioration in asset quality is contained, as the operating environment remains benign on the back of supportive oil prices and sound business activity in Saudi Arabia. Further, it said that Bahrain's banks are largely self-funded, as most non-equity funding is derived from deposits that accounted for 70% of such funding at end-2023 relative to 69% at end-2022. It noted that the sector relies heavily on single depositors that include government agencies, and holds a high volume of foreign-currency deposits from GCC institutions, which makes the banks susceptible to policy shifts and fiscal deterioration in Bahrain and other GCC countries. It noted that the sector's liquid assets accounted for 38.9% of tangible banking assets at end-2023, and its low loans-to-customer deposits ratio of around 80% at end-2023 mitigate these risks.

Source: Moody's Ratings

Oil prices to average $73 p/b in fourth quarter of 2024

ICE Brent crude oil front-month prices reached $73.7 per barrel (p/b) on September 18, 2024, constituting a rise of 6.4% from $69.2 p/b on September 10, 2024, as the ongoing impact of Hurricane Francine on oil output in the Gulf of Mexico in the U.S. outweighed persistent Chinese demand concerns. Also, oil prices recently increased, driven by the decision of the U.S. Federal Reserve to cut its policy rate, which is expected to lead to higher demand for oil in the near term. In parallel, ABN AMRO revised downward its projections for oil prices from an average of $85 p/b to an average of $73 p/b in the fourth quarter of 2024, driven by an increase in global oil market surplus. It forecast supply from the U.S., Guyana, Canada and Brazil to remain high in the coming months, which will put downward pressure on oil prices. It also anticipated additional oil output of 180,000 barrels per day (b/d) starting in December 2024 when the OPEC+ coalition begins to unwind its production cuts. However, it considered that OPEC+ members will delay their increase in oil output until next year, while it expected oil inventories to surge in 2025. Further, it anticipated a global recovery in demand for oil on the back of rate cuts by major central banks, which should bring the global oil market into balance and then stabilize oil prices in the near term. In addition, Goldman Sachs forecast Brent prices to recover to an average of $77 p/b in the fourth quarter of 2024, given that concerns about global oil recede and OECD inventories remain below their normal levels. Also, it projected a global surplus of 0.7 million b/d in 2025 amid higher inventory levels.

Source: ABN AMRO, Goldman Sachs, Refinitiv, Byblos Research

OPEC oil output down by 1% in August 2024

Member countries of the Organization of the Petroleum Exporting Countries (OPEC), based on secondary sources, produced an average of 26.59 million barrels of oil per day (b/d) in August 2024, constituting a decrease of 0.7% from 26.78 million b/d in July 2024. Saudi Arabia delivered 9 million b/d, or 33.8% of OPEC's total output, followed by Iraq with 4.23 million b/d (15.9%), Iran with 3.28 million b/d (12.3%), the UAE with 2.96 million b/d (11.1%), and Kuwait with 2.4 million b/d (9.1%).

Source: OPEC

Asia-Pacific accounts for 32.6% of global LNG exports in 2023

BP indicated that global Liquefied Natural Gas (LNG) exports reached 549.2 billion cubic meters (bcm) in 2023, up by 1.8% from 539.3 bcm in 2022. LNG exports from the Asia Pacific region totaled 179 bcm and accounted for 32.6% of global exports. The Middle East and the Americas followed with 131.4 bcm each (24% each), then Africa with 55.6 bcm (10%), and Europe and the Commonwealth of Independent States with 51.8 bcm (9.4%).

Source: BP, Byblos Research

Middle East accounts for 14.4% of world's natural gas consumption in 2023

BP indicated that global natural gas consumption reached 4,010.2 billion cubic meters (bcm) in 2023, nearly unchanged from from 4,008.7 bcm in 2022. The consumption of natural gas in North America totaled 1,104.8 bcm and accounted for 27.5% of the world's global consumption. The Asia Pacific region followed with 935.4 bcm (23.3%), the Commonwealth of Independent States with 596 bcm (15%), the Middle East with 577.7 bcm (14.4%), Europe with 463.4 bcm (11.6%), Africa with 171.2 bcm (4.3%), and South & Central America with 161.7 bcm (4%).

Source: BP, Byblos Research

Base Metals: Iron ore prices to average $102 per dry metric ton in third quarter of 2024

LME iron ore cash prices averaged $112.5 per dry metric ton (dmt) in the year-to-September 18, 2024 period, constituting a decrease of 3% from an average of $115.9 per dmt in the same period of 2023, due mainly to weak investor sentiment and poor demand for steel in China. Also, iron ore prices decreased from a peak of $143.4 per dmt on January 3, 2024, their highest level since June 9, 2022, to $90.4 a dmt on September 18, 2024, their lowest level since November 10, 2022, when they stood at $87.3 per dmt, amid lower demand and oversupply of the metal. Further, S&P Global Market Intelligence forecast the global supply for iron ore to increase from 2,429 million tons in 2023 to 2,464 million tons in 2024, or by 1.5%. Also, it projected the global demand for iron ore to decrease by 1.1% from 2,460 million tons in 2023 to 2,433 million tons in 2024. In addition, it expected global crude steel production, which is derived from iron ore, at 1,875 million tons in 2024, and to decline by 1% from 1,891 million tons in 2023. It anticipated the global consumption of steel at 1,772 million tons this year, relative to 1,764 million tons in 2023. It expected persistent weak demand for steel in China in the 2024-25 period to weigh on investor sentiment in the global iron ore market, which would negatively affect iron ore prices. Further, it forecast iron ore prices to average $102 per dmt in the third quarter and $98 a dmt in the fourth quarter of 2024.

Source: S&P Global Market Intelligence, Refinitiv, Byblos Research

Precious Metals: Silver prices to average $30 per ounce in 2024

Silver prices averaged $27 per troy ounce in the year-to-September 18, 2024 period, constituting an increase of 15.3% from an average of $23.5 an ounce in the same period of 2023. The increase in prices was due mainly to elevated industrial and investment demand for the metal. Further, prices stood at $30.7 per ounce on September 16, 2024, their highest level since July 16, 2024 when they reached $31.4 an ounce, driven by higher demand for the metal ahead of the U.S. Federal Reserve meeting on September 18, when it cut its policy rates by 50 basis points. In parallel, Citi Research projected the global supply of silver at 1,015 million ounces in 2024 relative to 1,008 million ounces last year, with mine output representing 81.2% of the total. Further, it forecast demand for the metal at 1,239 million ounces in 2024 compared to 1,231 million ounces in 2023. Further, in its bear case scenario, it projected silver prices to decline to $18 per ounce by the end of 2025 due to elevated real interest rates in the U.S. and to the substantial weakening of demand for the metal from China and India. However, in its bull case scenario, it expected silver prices to rise to $45 per ounce by end-2025, in case of a decline in U.S. real interest rates, a deeper-than-expected economic slowdown in the U.S. and the European Union, and a strong recovery in silver imports by China and India. In addition, it anticipated silver prices to exceed $30 per ounce in the 2024-26 period due to strong industrial demand for the metal from China, mainly in solar photovoltaic installations and in electric vehicles sales. Also, it forecast silver prices to average $30 per ounce in 2024.

Source: Citi Research, Refinitiv, Byblos Research

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	LT Foreign currency rating: Moody's	LT Foreign currency rating: Fitch	LT Foreign currency rating: CI	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 (%)
Africa												
Algeria	- -	- -	- -	- -	-3.7	56.9	-	-	-	-	-3.2	0.4
Angola	B- Stable	B3 Positive	B- Stable	- -	-1.0	82.4	4.6	53.3	26.9	108.2	2.5	-4.3
Egypt	B- Positive	Caa1 Positive	B- Positive	B Stable	-7.2	86.6	2.8	85.1	58.8	158.1	-3.6	13.4
Ethiopia	SD -	Caa3 Stable	CCC- -	-	-2.9	26.2	0.5	33.4	7.8	157.9	-3.4	2.0
Ghana	SD -	Ca Stable	RD -	- -	-4.8	78.1	1.1	41.1	22.7	127.6	0.9	2.0
Côte d'Ivoire	BB- Positive	Ba2 Stable	BB- Stable	- -	-4.5	57.7	4.7	47.6	15.7	112.3	-4.4	2.3
Libya	- -	- -	- -	- -	-	-	-	-	-	-	-	-
Dem Rep Congo	B- Stable	B3 Stable	- -	- -	-2.5	15.0	1.4	5.1	2.0	102.1	-5.6	4.2
Morocco	BB+ Positive	Ba1 Stable	BB+ Stable	- -	-4.1	65.8	4.9	30.4	7.3	94.0	-1.4	0.5
Nigeria	B- Stable	Caa1 Positive	B- Stable	- -	-4.4	47.4	2.9	41.7	23.3	113.6	0.5	0.1
Sudan	- -	- -	- -	- -	-5.0	91.0	-	-	-	-	-5.0	0.2
Tunisia	- -	Caa2 Negative	CCC+ -	- -	-5.6	88.7	-	-	26.1	-	-2.7	-1.1
Burkina Faso	CCC+ Stable	- -	- -	- -	-5.5	61.8	0.5	64.8	12.3	168.7	-3.6	0.5
Rwanda	B+ Stable	B2 Stable	B+ Stable	- -	-4.8	68.0	3.6	22.5	9.6	111.1	-10.6	3.5
Middle East												
Bahrain	B+ Stable	B2 Stable	B+ Stable	B+ Stable	-4.0	120.8	-4.1	148.5	26.5	363.8	3.7	1.0
Iran	- -	- -	- -	B Stable	-4.2	26.1	-	-	-	-	3.5	-
Iraq	B- Stable	Caa1 Stable	B- Stable	- -	-4.5	38.3	20.3	4.0	2.0	33.0	11.5	-1.8
Jordan	BB- Stable	Ba3 Stable	BB- Stable	BB- Stable	-1.1	90.6	1.9	69.7	10.9	151.6	-4.6	1.8
Kuwait	A+ Stable	A1 Stable	AA- Stable	A+ Stable	-2.1	4.7	2.8	41.3	0.4	97.3	19.4	-3.0
Lebanon	SD -	C -	RD** -	- -	-0.2	270.6	9.0	165.9	6.5	151.4	-9.5	0.5
Oman	BB+ Stable	Ba1 Positive	BB+ Stable	BB+ Stable	1.4	34.5	1.8	31.4	8.2	113.0	1.3	2.5
Qatar	AA Stable	Aa2 Stable	AA- Positive	AA Stable	4.2	41.7	2.4	125.2	4.2	174.5	15.8	-2.4
Saudi Arabia	A Positive	A1 Positive	A+ Stable	A+ Positive	-2.0	23.0	10.2	23.8	3.4	66.1	1.4	0.1
Syria	- -	- -	- -	- -	-	49.0	-	-	-	-	-15.5	-
UAE	- -	Aa2 Stable	AA- Stable	AA- Stable	5.5	29.9	-	-	4.3	-	6.8	-2.0
Yemen	- -	- -	- -	- -	-2.7	50.7	-	-	-	-	-19.2	-2.3

COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	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 (%)
	LT Foreign currency rating											
Asia												
Armenia	BB-	Ba3	BB-	B+								
	Stable	Stable	Stable	Positive	-4.3	46.5	2.0	29.8	9.8	114.6	-3.0	2.2
China	A+	A1	A+	-								
	Stable	Negative	Stable	-	-3.0	66.1	10.6	25.8	5.9	64.5	2.3	0.7
India	BBB-	Baa3	BBB-	-								
	Stable	Stable	Stable	-	-8.0	86.0	6.6	27.5	28.9	87.2	-3.1	1.5
Kazakhstan	BBB-	Baa2	BBB	-								
	Stable	Positive	Stable	-	-2.7	26.1	4.0	26.6	7.9	99.2	-2.8	2.2
Pakistan	CCC+	Caa2	CCC+	-								
	Stable	Positive	-	-	-7.5	71.3	0.7	34.9	55.9	133.4	-1.3	0.4
Central & Eastern Europe												
Bulgaria	BBB	Baa1	BBB	-								
	Positive	Stable	Positive	-	-2.8	23.8	1.7	19.9	1.7	105.0	-0.2	1.8
Romania	BBB-	Baa3	BBB-	-								
	Stable	Stable	Stable	-	-5.9	49.0	4.3	25.4	6.4	99.6	-6.9	2.0
Russia	-	-	-	-								
	-	-	-	-	-0.8	19.8	11.6	23.0	3.6	61.1	2.0	-0.6
Türkiye	B	B1	BB-	B+								
	Positive	Positive	Stable	Stable	-3.6	29.1	1.2	77.3	9.5	166.0	-2.4	1.2
Ukraine	CC	Ca	CC	-								
	Negative	Stable	-	-	-17.0	95.0	4.6	38.1	10.2	105.8	-6.6	1.4

** Current account payments*

***Fitch withdrew the ratings of Lebanon on July 23, 2024*

Source: S&P Global Ratings, Fitch Ratings, Moody's Ratings, CI Ratings, Byblos Research - The above figures are projections for 2024

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	5.00	18-Sep-24	Cut 50bps	07-Sep-24
Eurozone	Refi Rate	3.65	12-Sep-24	Cut 60bps	25-Sep-24
UK	Bank Rate	5.00	19-Sep-24	No change	07-Nov-24
Japan	O/N Call Rate	0.25	31-Jul-24	Raised 15bps	20-Sep-24
Australia	Cash Rate	4.35	06-Aug-24	No change	24-Sep-24
New Zealand	Cash Rate	5.25	14-Augl-24	No change	09-Oct-24
Switzerland	SNB Policy Rate	1.25	20-Jun-24	Cut 25bps	26-Sep-24
Canada	Overnight rate	4.25	04-Sep-24	Cut 25bps	23-Oct-24
Emerging Markets					
China	One-year Loan Prime Rate	3.35	20-Aug-24	Cut 10bps	20-Sep-24
Hong Kong	Base Rate	5.25	02-May-24	Cut 50pbs	N/A
Taiwan	Discount Rate	2.00	13-Jun-24	No change	19-Sep-24
South Korea	Base Rate	3.50	22-Aug-24	No change	11-Oct-24
Malaysia	O/N Policy Rate	3.00	05-Sep-24	No change	16-Nov-24
Thailand	1D Repo	2.50	21-Aug-24	No change	16-Oct-24
India	Repo Rate	6.50	08-Aug-24	No change	09-Oct-24
UAE	Base Rate	4.90	18-Sep-24	Cut 50bps	N/A
Saudi Arabia	Repo Rate	5.50	18-Sep-24	Cut 50bps	N/A
Egypt	Overnight Deposit	27.25	18-Jul-24	No change	17-Oct-24
Jordan	CBJ Main Rate	7.50	30-Jul-23	Raised 25bps	N/A
Türkiye	Repo Rate	50.00	20-Aug-24	No change	19-Sep-24
South Africa	Repo Rate	8.25	18-Jul-24	No change	19-Sep-24
Kenya	Central Bank Rate	12.75	06-Aug-24	Cut 25bps	N/A
Nigeria	Monetary Policy Rate	26.75	23-Jul-24	Raised 50bps	24-Sep-24
Ghana	Prime Rate	29.00	29-Jul-24	No change	30-Sep-24
Angola	Base Rate	19.50	19-Jul-24	No change	19-Sep-24
Mexico	Target Rate	10.75	08-Aug-24	No change	26-Sep-24
Brazil	Selic Rate	10.75	18-Sep-24	Raised 25bps	N/A
Armenia	Refi Rate	7.75	30-Jul-24	Cut 25bps	10-Sep-24
Romania	Policy Rate	6.50	07-Aug-24	Cut 25bps	04-Oct-24
Bulgaria	Base Interest	3.54	01-Aug-24	Cut 10bps	01-Oct-24
Kazakhstan	Repo Rate	14.25	29-Aug-24	Cut 25bps	11-Oct-24
Ukraine	Discount Rate	13.00	25-Jul-24	No change	19-Sep-24
Russia	Refi Rate	19.00	13-Sep-24	Raised 100bps	25-Oct-24

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