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Major Country Developments
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Overview

The global economy struggles to find a firmer footing after a rocky start to 2016. Weak demand remains a fundamental problem facing the global economy. The inability of developed economies to stimulate strong domestic demand remains a challenge. The U.S. continues to post good job creation numbers while the dollar fell for a third consecutive month. Despite a pullback in investment in the energy sector, consumer spending and the housing market have kept the U.S. economy advancing, albeit at a modest pace. Meanwhile, U.S. inflation is rising gradually. The dollar is being dragged down by lackluster U.S. growth. There is still excess capacity in the U.S., Europe and Japan despite years of interest rates at rock bottom levels. There are signs that a cyclical upturn could be taking place in China's real estate market; while in Europe, where the European Central Bank introduced further monetary easing to encourage banks to lend more to companies, the outlook has improved slightly. Saudi Arabia took steps to slow Iran's efforts at increasing its oil exports, banning vessels that transport Iranian crude from entering Saudi waters, according to traders and shipbrokers.

Commodity prices experienced a boost in April, when the S&P GSCI index recorded a 10.1% rise. Of 24 commodities in the index, 20 saw prices rise, with only coffee, wheat and cattle prices retreating. Crude oil prices recorded the biggest monthly advance in a year as U.S. production slumped to the lowest level since October 2014. Brent crude jumped 22%, gold rose 5%, while corn rallied 11%. Together these developments helped to lift market confidence a bit, prompting a market rally and higher commodity prices. Commodities also benefited from monetary stimulus in China, the world's largest buyer of many raw materials, where there are signs of recovery in manufacturing and construction activity.

Meanwhile, worries of excessive speculative trading in commodities among retail investors caused Chinese authorities to clamp down on activity by raising margins as well as warning brokers to ease off trading in commodity futures.

Capital inflows to emerging market stocks and bonds stayed strong for a second month in April, more than compensating for outflows during the first two months of the year led by foreign investors. According to the Institute of International Finance (IIF), cross-border flows by non-resident investors into emerging market assets reached $25.5 billion in April, following a 21-month high of $37.1 billion in March. These inflows mark a sharp reversal after seven consecutive months of capital outflows totaling $80.7 billion over the period. The IIF anticipates foreign portfolio inflows to emerging market assets will remain positive for the rest of 2016.

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In **Brazil**, despite the ongoing political and economic crises, the country managed to attract $17 billion in foreign direct investments during the first quarter of 2016. This compares with inflows of $13.1 billion during the same period in 2015. This resilience suggests that over the medium-term, after the current political crisis has subsided, Brazil's economy will be able to gradually bounce back. This hinges on the ability of Latin America's largest economy to hammer out a political consensus on a package of spending cuts, tax increases and anti-protectionist measures. In the meanwhile, the economy is projected to shrink a further 3.8% in 2016.

Despite Brazil's recession and political uncertainty as impeachment action proceeds against President Rousseff, investors, traders and banks are quietly seeking and identifying opportunities in this important emerging market. The weak currency, slack in the labor market and depressed asset values make Brazil a market not to ignore. Whatever the outcome of the ongoing corruption scandal, the ultimate test will be the ability of the current or new government to stitch together a cohesive set of policies that emphasizes rewards for investment, job creation and renewed economic growth. This will take time.

In **Egypt** hundreds of protesters against repression by the Sisi government were dispersed with tear gas. Dozens of people were also arrested ahead of planned demonstrations, following warnings by President Sisi that no public expressions of dissent will be tolerated. The scarcity of hard currency to pay for some imports, caused by currency controls (which limits foreign exchange allocation by banks), is causing payment delays to some foreign suppliers. As a result of hard currency shortages in the banking system, the black market has become increasingly active as many importers have been forced to access foreign exchange through this source. Not surprisingly, hoarding of hard currency has become a major preoccupation especially among businesses heavily dependent on imports.

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In **Russia**, a second consecutive year of weak crude prices has forced the government to redraft the 2016/17 budget. The government passed a law compelling designated state-owned companies, including Gazprom (the world's largest gas producer), to pay 50% of their 2015 net profits in the form of dividends. This is the latest in a string of measures that are designed to plug a huge deficit in the national budget. Gazprom said it would balance the government's request for higher dividends against other concerns. The Russian government's order allowed that other factors could be considered in setting dividend levels, including the outlook for a company's profits over the next three years, investments plans, and the ability to raise new debt. Officials at Gazprom indicated that the company may be forced to either drawdown its hefty cash reserves or cut back on investment projects as a result of the requirement for higher dividends combined with still low oil and gas prices. Capital spending in 2016 has been cut by 11% from 2015's level.

Angola

Low global oil prices have undermined Angola's export earnings and economic growth over the past two years. The Angolan currency (the kwanza) has lost considerable value over the past seven months causing a sharp rise in consumer price inflation. GDP growth will remain subdued in 2016 but is expected to pick up slightly in 2017. Meanwhile, the government is being forced to take on more external borrowing to fund its current and development spending plans.

The economic downturn combined with poor governance, inadequate public services and high unemployment have raised the risk of disruptive public protests in Angola. Shortages of some basic food products, wage freezes and lay-offs in the public and private sectors have increased the hardships on the populace, breeding frustration. However, the ruling MPLA government has an oppressive streak and would react forcefully to any public dissent, including cracking down on opposition parties and critics of the government, while tightening controls over media outlets.

The forecast is for Angolan oil production to rise continuously between 2016 and 2020. By 2018 Angola is expected to generate two million barrels of crude per day. However, persistently low oil prices have made diversification of the Angolan economy more urgent. Some foreign firms could face project and order cancellations, or restricted access to foreign exchange and the rising risk of payment delays.

The recent loss of access to previously abundant international credit lines available to Angola, has made Chinese financing increasingly more important to Angola. In February it was announced that $5.3 billion in Chinese credit lines will be used to finance several public investment projects across Angola over the coming years. It's no surprise then that a recent report highlighted that the Angolan government will continue to prioritize the repayment of debts to China (in order to ensure the continuation of Chinese credit facilities).

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Restoring confidence in setting up business partnerships is the aim of a newly established Angola-China Chamber of Commerce, whose governing bodies include important figures from Angolan society and business circles. The new institution will focus on food, agro-industry, fisheries, construction, housing and infrastructure.

Kenya

A recent business outlook survey of multinationals and banks operating in Africa included Kenya as one of three countries expected to remain in the top income generating economies on the continent over the next six years. Kenya's GDP growth is expected to increase slightly to 5.6% in 2016, from an estimated 5.4% in 2015, although the factors alternatively driving and inhibiting expansion will remain broadly unchanged. A key constraint is higher interest rates (11.5%). The main growth drivers will be ongoing investment in infrastructure and buoyant household consumption, underpinned by strong underlying demand for goods and services.

Despite the rosy growth projections, company managers cite several challenges to doing business in Kenya. In particular, they cited issues such as bureaucracy, corruption, a difficult regulatory environment and infrastructure deficits.

Kenya's position in both the global and regional business environment rankings is expected to improve slightly over 2016-20. However, weaknesses in the political sphere and infrastructure bottle-necks will continue to hinder the overall business environment. Weakness in tourism due to security concerns will remain a drag on growth and foreign exchange earnings. The main policy challenge in the medium term will be to alleviate constraints to more and rapid economic growth, such as infrastructure deficiencies and skills shortages. Major investments in the transport and energy networks, coupled with reforms such as deregulation and privatization, will lead to gradual improvements. The government is committed to prioritizing trade liberalization and closer integration within the East African Community (EAC), as part of the drive to create a single regional market.

The current-account deficit, after narrowing to an estimated 6.2% of GDP in 2015 (helped by cheaper oil), will edge slightly higher in 2016 to 6.5% of GDP. It is projected to decline to 3.9% of GDP by 2020. A wider trade gap in 2016 reflects heavy imports of capital equipment to support major infrastructure projects (such as a new railway line), and strong demand for imported consumer goods.

Foreign policy will continue to be driven by economic interests, especially the maintenance of close relations with key donor countries. Kenya will maintain close ties with the U.S. (including military cooperation), China and India. Kenya is set to remain deeply engaged in peace keeping in Somalia (as part of the African union peace keeping force), but there is little prospect of bringing an end to that country's long-running war.

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FCIA's Deals Of the Month

Multibuyer, Non-Cancelable Limits Policy:
acquired to assist in the financing of foreign receivables of over $100 million of annual sales in computer peripherals, Global

Bank Policy, Contract Frustration:
$2,000,000 limit of liability, 5 year tenor, nonpayment by government owned entity, electrical power sector, Zambia