

THE LEBANON BRIEF

ISSUE 878

Week of 14-19 July, 2014



ECONOMIC RESEARCH DEPARTMENT
Rashid Karame Street, Verdun Area
P.O.Box 11-1540 Beirut, Lebanon
T (01) 747802 F (+961) 1 737414
research@blominvestbank.com
www.blom.com.lb

TABLE OF CONTENTS

FINANCIAL MARKETS	3
Equity Market	3
Foreign Exchange Market	5
Money & Treasury Bills Market	5
Eurobond Market	6
ECONOMIC AND FINANCIAL NEWS	7
BDL's Total Assets Inched Up to \$83.19B by Mid-July	7
Value of Real Estate Sales Transactions Hit \$3.83B by May 2014	7
"Salaries Wages and Related Benefits" Reached \$238.81M in January	8
Lebanon Ranked 112th among 186 Countries in Country Risk	8
Lebanon Scored 39.1 in Telecoms Rating	9
CORPORATE DEVELOPMENTS	10
Bank of Beirut Finance Associates with Allianz SNA	10
FOCUS IN BRIEF	11
Beirut Stock Exchange: H1 2014 Performance Review	11

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.

FINANCIAL MARKETS

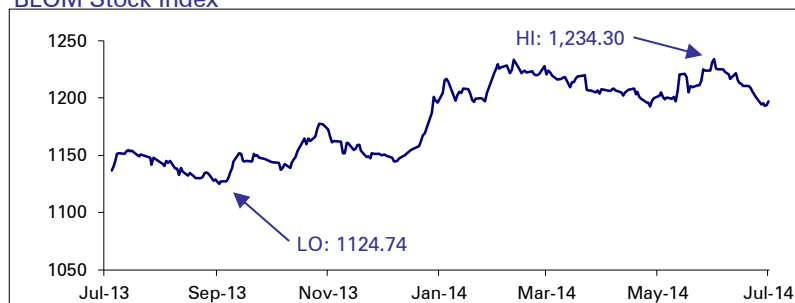
Equity Market

Stock Market

	18/07/2014	11/07/2014	% Change
BLOM Stock Index*	1,197.44	1,200.90	-0.29%
Average Traded Volume	101,954	481,750	-78.84%
Average Traded Value	941,932	1,370,597	-31.28%

*22 January 1996 = 1000

BLOM Stock Index



Banking Sector

	Mkt	18/07/2014	11/07/2014	% Change
BLOM (GDR)	BSE	\$9.35	\$9.35	0.00%
BLOM Listed	BSE	\$8.77	\$8.80	-0.34%
BLOM (GDR)	LSE	\$9.40	\$9.35	0.53%
Audi (GDR)	BSE	\$6.40	\$6.60	-3.03%
Audi Listed	BSE	\$6.36	\$6.35	0.16%
Audi (GDR)	LSE	\$6.40	\$6.40	0.00%
Byblos (C)	BSE	\$1.60	\$1.60	0.00%
Byblos (GDR)	LSE	\$73.00	\$73.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$2.00	\$2.00	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.82	\$1.82	0.00%

	Mkt	18/07/2014	11/07/2014	% Change
Banks' Preferred Shares Index *		104.45	104.57	-0.11%
Audi Pref. E	BSE	\$101.00	\$101.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Audi Pref. G	BSE	\$100.00	\$100.00	0.00%
Audi Pref. H	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$100.50	\$100.50	0.00%
Byblos Preferred 09	BSE	\$100.00	\$101.00	-0.99%
Bank of Beirut Pref. E	BSE	\$25.50	\$25.50	0.00%
Bank of Beirut Pref. I	BSE	\$25.75	\$25.70	0.19%
Bank of Beirut Pref. H	BSE	\$25.70	\$25.70	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%
BLC Pref A	BSE	\$100.00	\$100.00	0.00%
BLC Pref B	BSE	\$100.00	\$100.00	0.00%
BLC Pref C	BSE	\$100.00	\$100.00	0.00%
Bemo Preferred 2013	BSE	\$100.80	\$100.80	0.00%

* 25 August 2006 = 100

The Presidential vacuum, the unresolved public sector employees' wage scale, and the uprisings in Gaza weighed on the Beirut Stock Exchange (BSE), which recorded its fourth consecutive weekly decline.

The BLOM Stock Index (BSI) lost 0.29% to close at 1,197.44 points on Friday. The average volume of traded shares shrank by 78.84% to 101,954 and the average traded value declined by 31.28% to \$941,932. As for the market capitalization it narrowed by 27.71M to \$9.60B.

The BSI was outperformed by all three of its regional peers: the S&P AFE40 index which added 0.75% to 70.03 points, the S&P Pan Arab Composite Large Midcap index which added 0.54% to 151.94 points and the Morgan Stanley Emerging index (MSCI) which edged up by 0.02% to 1,062.59 points.

In the Arab Bourses, Dubai stock exchange was the best performer with an upsurge of 7.18%, the Abu Dhabi bourse followed with a 3.84% rise and the Qatari stock market added 2.83%. The Dubai stock exchange paused trade on Arabtec Holding Co. until the company discloses information about its ownership and management. Moreover, the Securities and Commodities Authority announced that it will compose a new committee to safeguard the integrity of its market and prevent market manipulation.

Moving to this week's worst performers, Amman's bourse lost 0.34%, the BSE came in second followed by Saudi Arabia's stock exchange that fell by 0.17%.

On the Beirut Stock Exchange, Audi's listed shares added 0.16% to \$6.36 while the bank's Global Depositary Receipts (GDR) lost 3.03% to close at \$6.40. The listed shares of BLOM Bank also declined by 0.34% and settled at \$8.77.

Likewise, The BLOM Preferred Shares Index (BPSI) lost 0.11% to reach 104.45 points on Friday.

During the week, Byblos's preferred shares class 2009 dropped by 0.99% to \$100.00, while Bank of Beirut preferred shares class I ticked up by 0.19% to \$25.75.

Real Estate

	Mkt	18/07/2014	11/07/2014	% Change
Solidere (A)	BSE	\$12.62	\$12.65	-0.24%
Solidere (B)	BSE	\$12.69	\$12.72	-0.24%
Solidere (GDR)	LSE	\$12.51	\$12.84	-2.57%

On the London Stock Exchange (LSE), the Global Depositary Receipts (GDR) of Solidere lost 2.57% to \$12.51, while BLOM GDRs inched up by 0.53% to \$9.40.

Manufacturing Sector

	Mkt	18/07/2014	11/07/2014	% Change
HOLCIM Liban	BSE	\$13.76	\$13.97	-1.50%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

In the real estate sector, Solidere A and B shares slid by 0.24% each to end the week at \$12.62 and \$12.69, respectively.

In the industrial sector, HOLCIM shares lost 1.50% to close at \$13.76.

Funds

	Mkt	18/07/2014	11/07/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,279.85	\$7,301.40	-0.30%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,202.68	\$5,218.42	-0.30%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,529.10	\$5,545.46	-0.30%
BLOM Bond Fund	-----	\$9,653.12	\$9,653.12	0.00%

In the retail sector RYMCO shares surged by 18.15% to \$3.19.

The performance of the Lebanese stock market will remain hostage of the domestic and regional political and security developments. In the coming period, political stability on the internal front is the key to offset the negative influence from regional developments especially ahead of the Eid period at the end of Ramadan month.

Retail Sector

	Mkt	18/07/2014	11/07/2014	% Change
RYMCO	BSE	\$3.19	\$2.70	18.15%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

Tourism Sector

	Mkt	18/07/2014	11/07/2014	% Change
Casino Du Liban	OTC	\$380.00	\$380.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

Foreign Exchange Market

Lebanese Forex Market

	18/07/2014	11/07/2014	% Change
Dollar / LP	1,512.00	1,513.00	-0.07%
Euro / LP	2,040.10	2,052.01	-0.58%
Swiss Franc / LP	1,680.41	1,689.64	-0.55%
Yen / LP	14.87	14.88	-0.07%
Sterling / LP	2,579.33	2,582.65	-0.13%
NEER Index**	131.63	131.30	0.25%

*Close of GMT 09:00+2

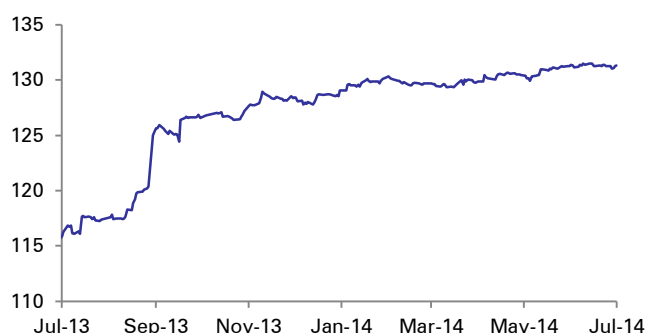
**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

Demand for the dollar weakened over the past week, as shown by the Lebanese pound's peg against the dollar, that reached \$/LP 1510-1514 with a mid-price of \$/LP 1512, from last week's quote of \$/LP 1512-1514 with a mid-price of \$/LP 1513. Foreign assets (excluding gold) at the Central Bank reached \$37.07B by June compared to \$36.37B by May. Meanwhile, the dollarization rate of private sector deposits stood at 65.74% in May compared to 66.13% in December 2013.

On the international front, the Semiannual Monetary Report of the Federal Reserve in the U.S released this week showed signs of recovery, where unemployment level has been decreasing and inflation increasing, though still below the 2% target rate. Hence, the euro depreciated by 0.58% against the greenback to settle at €/ \$ 1.3533 on Friday.

Nominal Effective Exchange Rate (NEER)



As for gold, the price of the ounce fell by 1.77% from last week's \$1,337.84 to \$1,314.14, after the Federal Reserve declared that it will stop purchasing bonds in October.

By Friday July 18 2014, 12:30 pm Beirut time, the dollar-pegged LP appreciated against the euro going from €/LP 2,052.01 to this week's €/LP 2,040.10. The Nominal effective exchange Rate (NEER) added a weekly 0.25% to 131.63 points, while its year-to-date gain reached 1.99%.

Money & Treasury Bills Market

Money Market Rates

	18/07/2014	11/07/2014	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

Treasury Yields

	18/07/2014	11/07/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

During the week ending June 26, 2014, broad Money M3 expanded by LP 586B (\$388.45M), to reach LP 173,552B (\$115.13B). M3 growth rate reached 7.36% year-on-year and 3.57% since year start. Likewise, M1 added LP 19B (\$12.93M) due to the upturn in demand deposits by LP 88B (\$58.37M), while money in circulation declined by LP 69B (\$45.77M).

Total deposits (excluding demand deposits) augmented by LP 566.10B (\$375.52M), given the upsurge in deposits denominated in foreign currencies by \$244M. Likewise, term and saving deposits in domestic currency rose by LP 198B. Over the above mentioned period, the broad money dollarization went up from 59.31% to 59.32%. According to the Central Bank, the overnight interbank rate went back down to 2.75% at the end of May 2014 compared to 3.00% in April.

In the TBs auction held on the 10th of July 2014, the Ministry of Finance raised LP 616.76B (\$409.13M), through the issuance of 1Y bills and 2Y and 3Y notes. The highest demand was achieved on the 3Y notes that grasped a share of 80.28 % while the 1Y bill and the 2Y note accounted for 13.72% and 6.00% respectively. The 1Y bills yielded 5.08%, while the average coupon rate for the 2Y and 3Y notes stood at 5.84% and 6.50%, respectively. New subscriptions exceeded maturing T-bills by LP 80.29B (\$53.26M).

Moreover, there was a special issuance of 10Y notes amounting to LP 967.88B (\$642.04M) with an average coupon rate of 7.98%.

Eurobond Market

Eurobonds Index and Yield

	17/07/2014	10/07/2014	Change	Year to Date
BLOM Bond Index (BBI)*	108.080	108.054	0.02%	2.31%
Weighted Yield**	5.20%	5.22%	-2	18
Weighted Spread***	358	358	0	-72

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

** The change is in basis points

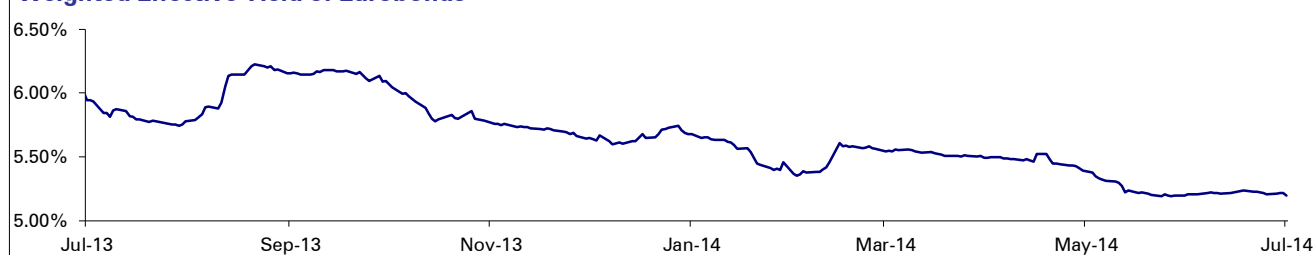
***Against US Treasuries (in basis points)

Eurobonds Lebanese Government

Maturity - Coupon	17/07/2014 Price*	10/07/2014 Price*	Weekly % Change	17/07/2014 Yield	10/07/2014 Yield	Weekly Change bps
2015, Jan - 5.875%	101.505	101.427	0.08%	2.79%	3.44%	-66
2015, Aug - 8.500%	105.235	105.273	-0.04%	3.39%	3.69%	-30
2016, Jan - 8.500%	107.035	107.068	-0.03%	3.65%	3.81%	-15
2016, May - 11.625%	113.603	113.724	-0.11%	3.80%	4.36%	-56
2017, Mar - 9.000%	111.651	111.659	-0.01%	4.34%	4.80%	-46
2018, Jun - 5.150%	101.495	101.247	0.24%	4.72%	5.39%	-66
2020, Mar - 6.375%	104.69	104.764	-0.07%	5.40%	5.61%	-21
2021, Apr - 8.250%	114.737	114.687	0.04%	5.59%	5.85%	-26
2022, Oct - 6.100%	101.556	101.592	-0.04%	5.86%	5.93%	-7
2023, Jan - 6.000%	100.469	100.476	-0.01%	5.93%	6.27%	-34
2024, Dec - 7.000%	105.687	105.523	0.16%	6.25%	6.40%	-15
2026, Nov - 6.600%	101.754	101.708	0.05%	6.39%	6.46%	-7
2027, Nov - 6.75%	102.587	102.539	0.05%	6.46%	6.47%	-2

*Bloomberg Data

Weighted Effective Yield of Eurobonds



The Lebanese Eurobonds managed to close in the green for the week ending July 17, 2014 despite that 3 out of 5 sessions posted negative performance. Lebanon's sovereign demand was partly impacted by the international bullish trend that characterized the bond markets around the world after statements confirmed the shooting down of the Malaysian airplane in Ukraine. The BLOM Bond Index (BBI) rose by a mere 0.02% to 108.08 points, widening its year-to date gain to 2.31%. Therefore, the 5Y yield on the Lebanese Eurobonds dropped by 2 basis points (bps) to 5.11% while the 10Y yield remained subdued at 6.23%.

Geopolitical risks in the Middle East also increased this week especially with the worsening crisis in Gaza after the end of the ceasefire. In addition, the drop in the Indian Rupee and the rising concerns of quickening inflation in Philippines after Typhoon Rammasun also impacted the emerging bond markets. This has triggered the JP Morgan emerging countries' bond index 0.35% down to 685.52 points.

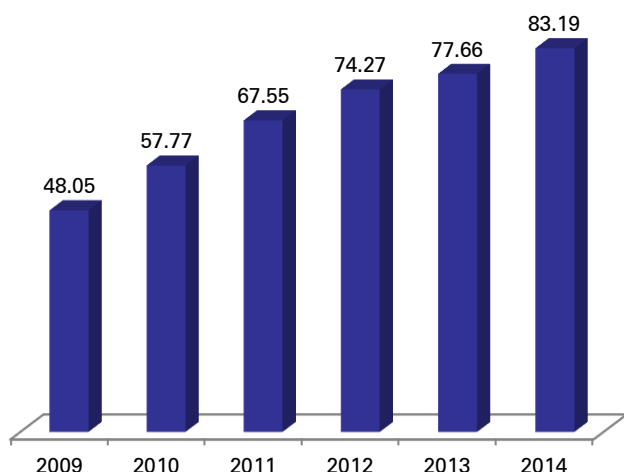
In the U.S, investors maintained their wary positions in favor of Treasuries for the second week in a row. Accordingly, 5Y and 10Y Treasury yields dropped by 1 bps and 8 bps from last week, to settle at 1.65% and 2.47%, respectively. As a result, the 5Y spread between the Lebanese Eurobonds and their U.S benchmark tightened by 1 bp to reach 346, while the 10Y spread broadened by 8 bps to 376 bps.

Lebanon's credit default swap for 5 years (CDS) expanded by an average of 5 bps to 340-370 bps. In regional economies, 5Y CDS quotes of Saudi Arabia were last trading at 45-55 bps, up from 49-54 bps last week. In contrast, Dubai 5Y CDS widened by an average of 8 bps to 159-169 bps. As for emerging economies, CDS quote of Brazil widened from 147-149 bps last week, to 149-151 bps, while that of Turkey broadened from last week's level of 176-179 bps to close at 184-187 bps.

ECONOMIC AND FINANCIAL NEWS

BdL total Assets by Mid-July

(In \$B)



Source: BdL

BDL's Total Assets Inched Up to \$83.19B by Mid-July

According to the Central Bank's (BDL) balance sheet, total assets posted a 1.57% monthly uptick to reach \$83.19B by mid-July, mainly due to the increase in its holdings of foreign assets.

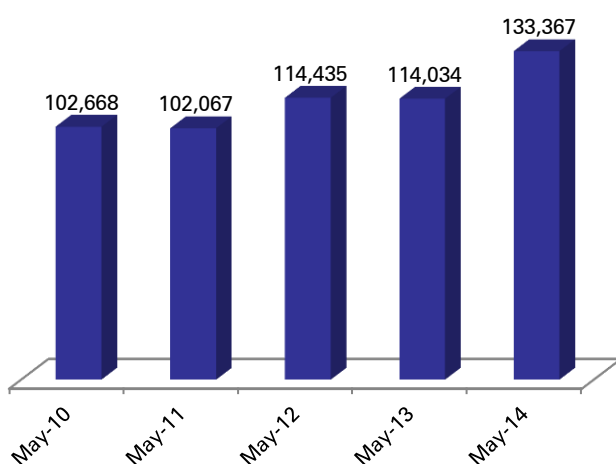
The latter (excluding gold), grasping a share of 45% of total assets, inched up by 0.84% since mid-May, to reach \$37.15B. Likewise, gold reserves grew by 2.80% to settle at \$12.08B. Worth noting that during this period, the price of gold increased by 1.79% to \$1294.10/ounce.

The central bank's securities portfolio and loans to the local financial sector increased by 0.80% and 3.70% in month-ago terms to reach \$12.73B and \$3.42B, respectively.

On the liabilities side, financial sector deposits expanded by 0.31% from mid-June's level to settle at \$61.97B in mid-July.

Average Value of Property Sales Transactions by May

(In \$)



Source: Cadastre

Value of Real Estate Sales Transactions Hit \$3.83B by May 2014

Total real estate transactions stayed on its uphill path by May of 2014 to reach 28,683 transactions, achieving an 8.17% upsurge compared to the same period last year.

In details, total value of property sales transactions surged by 26.51% y-o-y from \$3.02B in May 2013 to \$3.83B by May 2014. Therefore, the average value of a real estate transaction went higher to \$133,366.68 during the first five months of this year compared to \$114,034.47 in the same period of 2013.

Sales to foreigners declined by 9.68% year-on-year, reaching 429 transactions. Moreover, foreigners' share of total real estate transactions went down from 1.79% by May 2013 to 1.50% this year. This means that Lebanese residents and non-residents are the main factors behind the improvement in the real estate market.

Breakdown of Salaries, Wages, and Related Benefits

(In \$M)

	Basic Salaries		Total	
	Jan-13	Jan-14	Jan-13	Jan-14
Military Personnel	110.12	116.09	143.95	157.21
Army	70.98	71.64	98.84	90.88
Internal Security Forces	29.85	33.83	35.16	49.75
General Security Forces	7.30	8.62	7.96	13.27
State Security Forces	1.99	1.99	1.99	3.32
Education Personnel	44.44	39.80	53.73	43.78
Civil Personnel , of which	20.56	19.24	29.19	27.20
Employees Cooperative	-	-	6.63	9.29
Customs Salaries	-	-	3.98	1.99
Total	175.12	175.79	237.48	238.81

Source: Ministry of Finance

"Salaries Wages and Related Benefits" Reached \$238.81M in January

According to the Ministry of Finance (MoF), "salaries, wages and related benefits" constituted 26% of total primary spending in January, being the prime component. This major share of primary spending slightly increased by 0.56%, from \$237.48M in 2013 to \$238.81M in 2014. The main cause of the marginal upturn is the \$4.64M and \$1.33M decline in basic salaries to education and civil personnel, respectively, that offset the \$5.97M rise in military personnel cost.

The total payments to military personnel, accounting for 65.83% of the total, grew by 9.22% year-on-year (y-o-y) to \$157.21M. On the other hand, the "salaries, wages, and related benefits" of the education and civilian personnel, with shares of 18.33% and 11.39% of the total, lessened by 18.52% and 6.82% y-o-y to \$43.78M and \$27.20M, respectively.

Basic salaries constituted the largest share of 73.61% of total salary expenditures, followed by 15.27% for allowances, and 1.67% for other expenses.

Lebanon's Score and Rank in Q2 2014

	Score	Global Rank in Q2	Global Rank in Q1
Political Risk	10.57	127	126
Economic Performance	12.86	109	104
Structural Assessments	5.19	62	61
Debt Indicators	2.00	161	161
Credit Rating	1.25	106	105
Access to Bank Finance & Capital Markets	2.25	110	110
Country Risk	34.1	112	113

Source: Euromoney

Lebanon Ranked 112th among 186 Countries in Country Risk

In Euromoney's quarterly survey of Country Risk, Lebanon ranked 112th among 186 countries worldwide and 14th out of 22 countries in the MENA region, in the second quarter of 2014, with a score of 34.10 points, below the average global score of 42.61 points. Lebanon advanced by 1 place compared to Q1 2014 where it ranked 113, however with a score of 1.6% less. On a year-on-year basis, Lebanon's rank went back by 16 positions from its 96th rank in Q2 2013.

Country risk is a weighted score of six indicators: Political Risk, Economic Performance, Access to Bank Finance and Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment.

Compared to the previous quarter and on a global level, Lebanon lost 5 positions on the Economic Performance level, where its score fell by 2% to 12.86 points. Concomitantly, it retreated by 1 position on each of the Political Risk, Credit

Ratings, and Structural Assessment classifications. Its rank remained unchanged from Q1 for the remaining categories, which are Debt Indicators and Access to Bank Finance and Capital Markets.

Lebanon's scores for Political Risk and for Structural Assessment dropped by 1.9% each, since Q1 to settle at 10.57 points and 5.19 points, respectively. On the other hand, Lebanon's score for Debt Indicators (2.00 points), Credit Rating (1.25 points), and Access to Bank Finance and Capital Markets (2.25 points) remained the same as the previous quarter.

Lebanon Scored 39.1 in Telecoms Risk/Reward Rating

MENA Telecoms Ratings and Ranks

	Telecoms Rating	Rank
Israel	65.5	1
Qatar	62.1	2
UAE	58.3	3
Kuwait	57.7	4
Bahrain	55.0	5
Oman	53.1	6
Morocco	51.3	7
Iraq	48.4	8
Libya	46.6	9
Jordan	46.4	10
Egypt	45.3	11
Iran	44.5	12
Algeria	44.4	13
Tunisia	41.5	14
Lebanon	39.1	15
Average	50.4	

Source: BMI

Telecom Risk/Reward Ratings forecast for the fourth quarter of 2014 for the MENA region showed that the average score for the region decreased by 0.3 points to 50.4, partly due to the rising security conditions in Iraq. Noting that the score, which is out of 100, includes 2 sub-ratings, 'Rewards' and 'Risks', where each of them is further divided to industry and country sub-ratings.

With respect to Lebanon, it scored 39.1 points in total, the worst in the MENA region. The reasons behind such a poor performance are the failure of the Parliament to elect a new president, the continued spillovers from Syrian refugees, the elevated political and security shakiness, and the government ownership of mobile operators. For the 'Rewards' sub-ratings, it attained 63.3 on 'Country Rewards' and 28.8 on 'Industry Rewards'. Meanwhile, it recorded 44.9 on 'Country Risk' and 25.0 on 'Industry Risk'.

Nonetheless, the reduction in tariffs for telecom services presents a positive factor to Lebanon's "Industry Rewards" score for the upcoming quarters. This is due to lower prices that lead to higher subscription growth. Moreover, telecoms operator Alfa had already reported a 30% surge in data consumption on its network, up to June.

Second and third worst performers were Tunisia and Algeria, with respective scores of 41.5 and 44.4. On the other hand, Israel, Qatar, and Saudi Arabia topped the list with telecoms ratings of 65.5, 62.2, and 58.3 respectively.

CORPORATE DEVELOPMENTS

Financial Highlights of Bank of Beirut for Q1

(In \$B)

	31/03/2013	31/03/2014	% change
Customer's Deposits	8.55	10.00	16.96%
Net Loans & Advances to Customers	3.28	3.57	8.84%
Total Assets	11.33	13.37	18.01%
Net Profit (in \$M)	33.08	36.79	11.22%
Shareholders' Equity	1.46	1.58	8.22%

Source: BSE

Bank of Beirut Finance Associates with Allianz SNA

Bank of Beirut (BoB) and the insurance company Allianz SNA have declared their partnership. This will permit Allianz SNA's customers to pay their insurance policies, with no extra charge, at any BoB branch, by only identifying their name, their policy number, and the amount they wish to pay. The bank will then inform Allianz SNA of the payment through a special channel.

During the first quarter of 2014, Bank of Beirut reported a net profit of \$36.79M, registering a yearly increase of 11.22%, surpassing that of Byblos Bank. In addition, the Banker Middle East granted BoB the "Fastest Growing Bank in Lebanon" Award.

FOCUS IN BRIEF

Beirut Stock Exchange: H1 2014 Performance Review

In the first half of 2014, the US pursued its economic recovery, the ECB stood firmly by its monetary stimulus, the Arab world remained rattled by conflicts and Lebanon remained stuck between its political deadlock and its economic slowdown. The following details how the global, regional and Lebanese stock markets reacted to these broad themes.

In the US, the Standard and Poor's 500 Index (S&P 500) grew by 6% to 1,960.23 points in the first half of 2014 (H1 2014) indicating that US stocks have kick-started this year on a strong note. The only monthly downturn of the S&P 500 was recorded in January when the gauge shed a monthly 4% amidst concerns over the effect of a harsh winter on the economy and the repercussions of the Russia-Ukraine conflict. The following 5 months, the index kept posting upturns ranging from 2% to 4% depending on how upbeat the economic data turned out to be. Overall, the broad picture for the US economy is a bright one with unemployment shrinking to a six-year low of 6.1% in June and with a slowly yet-surely rebounding residential real-estate market.

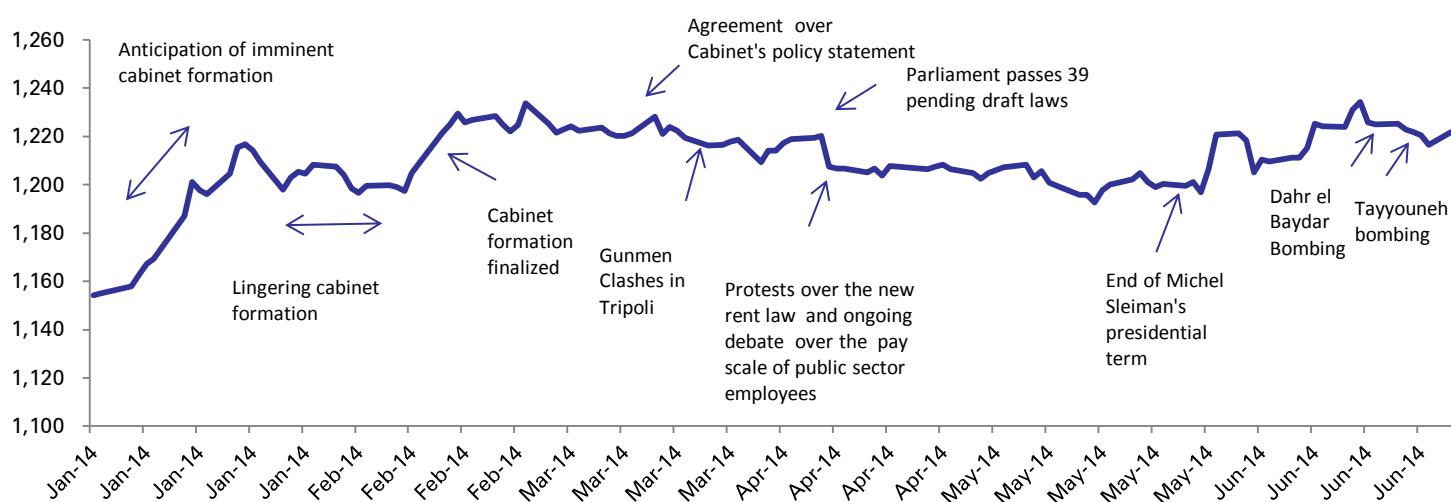
The Euro Stoxx 50 ended the month of June at 3,228.24 points, 4% above December 2013's close of 3,109 points. After a 3.1% monthly drop in January, the gauge grew by 4.5% in February, registered minor upturns in March, April and May to finally shed 0.5% in June. The meager Eurozone growth remains insufficient to ease concerns over low inflation or to reduce unemployment, compelling the European Central Bank to pursue its monetary stimulus, a move welcomed by stock market investors.

As for Arab bourses, the top three performers were Egypt, Dubai and Bahrain with respective gains of 20.34%, 17% and 14.31%. In June, Egypt decided to loosen restrictions (limits on daily share price movements) imposed on its bourse since the 2011 uproar, a sign of recovering confidence in the country. The Egyptian bourse could also be revived in the period to come if the bid led by billionaire Naguib Sawiris and Beltone Financials for a stake in EFG Hermes pulls through.

On the Beirut Stock Exchange (BSE), the BLOM Stock Index (BSI) rose by 6.24% over the first six months of the year to end the month of June at 1,221.87 points. The volume and value of traded shares increased by 47% and 55% y-o-y to reach 26.49M and \$206.01M, respectively.

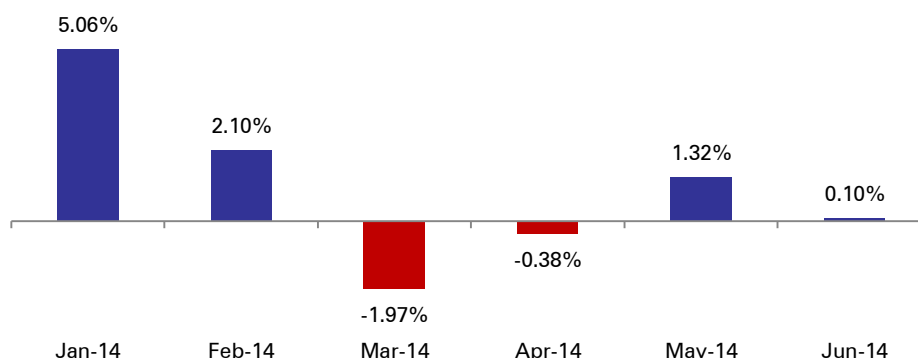
The BSE, as always, was highly influenced by the country's political divisions, security incidents and social outcry. The movements of the BSI are described in the graph below in the light of the most prominent events taking place during H1 2014.

Daily Movements of the BLOM Stock Index in H1 2014



Source: Blominvest Research Department

Monthly Changes in the BLOM Stock Index



Source: Blominvest Research Department

Investors were upbeat in January as an imminent cabinet formation was awaited. Accordingly, the BSI posted a 5.06% monthly upturn during that month, hovering around the level of 1,200 points.

However, as delays and lack of consensus among political parties intensified, the cabinet formation lingered, pulling investor sentiment down. The BSI was then fluctuating around the 1,190 points rather than the 1,200 points. It wasn't until the long overdue cabinet formation materialized in February that the BSI trended upwards again, posting its second monthly upturn of the year of 2.10% in February.

The situation was then reversed during the months of March and April. During this period, the country witnessed tensions in Tripoli, conflict between the opponents and advocates of the new rent law as well as social outcry regarding the pay scale of public sector employees which remains unresolved at the time of writing this article. Some positive political developments occurred such as the agreement over the cabinet's policy statement and the concluding of 39 pending draft laws in the rare occasion where Parliament managed to convene. In spite of these optimistic events, the BSI shed a monthly 1.97% in March and 0.38% in April.

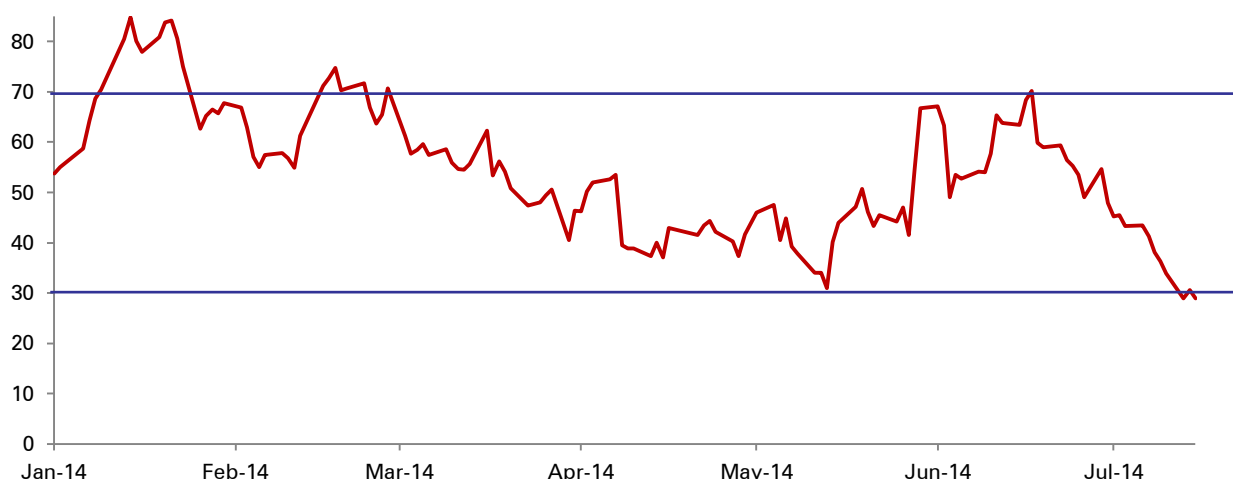
During the month of May, the BSI recovered by a monthly 1.32%. Throughout this period the index remained quite stable, as investors adopted a wait-and-see approach, monitoring the repeated attempts to elect a new President and as the country benefitted from a relatively stable security scene.

In the month of June, the index's 0.10% upturn was the lowest in H1 2014. On the political front, President Michel Sleiman's term was through, with no agreement over his successor. On the security front, relative stability was short-lived since the country was rattled by the car bombings in Dahr el Baydar and Tayyouneh. These incidents are bound to negatively impact overall market sentiment and therefore the BSI. The extent of this impact remains to be seen in the period ahead.

Another way to examine the BSI is through the Relative Strength Index (RSI) which is a momentum indicator, measuring the speed and change of price movements. When the RSI hits the 70-mark, the index is overvalued but when the RSI hits the 30-mark, the index is undervalued. Coinciding with the anticipation of the cabinet formation and market optimism the RSI hit the 70-mark in January.

We also incorporated available July figures and noticed that the RSI hit the 30-mark. This means that the magnitude of recent losses in the index exceeded that of recent gains. Two turn of events can be envisaged: The RSI could slip further below the 30-mark or the RSI could climb back up indicating a regained momentum. As we have clearly demonstrated, the coming movements will remain tightly linked to political, economic and social developments in the country.

Relative Strength Index (RSI) for BSI



Source: Blominvest Research Department

By the end of June 2014, 28 stocks were listed on the BSE with a market capitalization of \$9.79B at the end of June 2014 compared to \$8.90B at the end of June 2013. In H1 2014, 200,000 BEMO Bank preferred shares class 2006 were de-listed, 350,000 Bank BEMO preferred shares 2013 were listed and 476,260 additional Audi GDR shares were listed. After these activities, the total number of listed shares on the BSE amounted to 1,497,406,084 in H1 2014.

Banking stocks accounted for 74% of total traded value or \$152.98M in H1 2014, the real estate sector accounted for 25% of traded value or \$51.14M while the industrial and retail sectors combined represented a minor share of less than 1%.

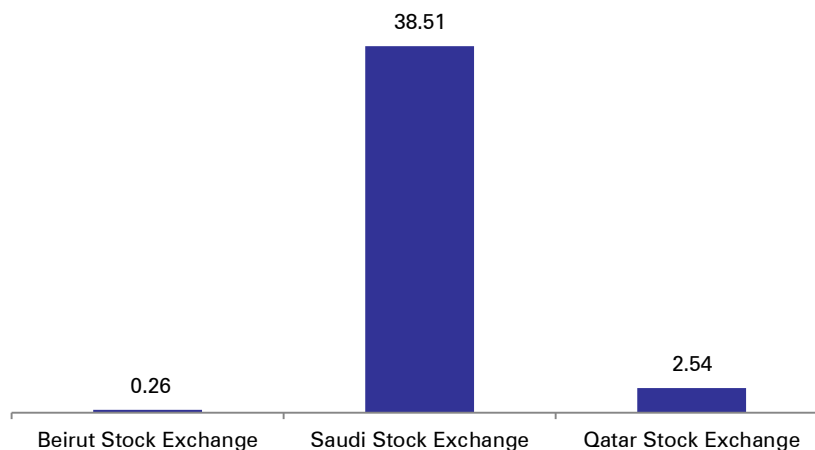
In terms of stocks, the top performers were Solidere A and Solidere B which added 21.18% and 22.50% to end H1 2014 at \$13.39 and \$13.50, respectively. BLOM's GDR and Listed shares followed with respective gains of 6.59% and 6.67% to reach \$9.38 and \$8.80.

In the first six months of the year, the bottom performers were Rymco with a 23.14% downturn to \$2.69, Ciments Blancs Nominal shares with a 15.12% drop to \$2.75 and Audi's preferred E and F shares which shed 2.44% each to end H1 2014 at the same price of \$100.00.

The BLOM Preferred Shares Index (BPSI) slid from 105.19 points at the end of December 2013 to 104.33 points at the end of June 2014. Byblos' preferred 08 and 09 shares slid by 0.69% and 1.08% to \$100.30 and \$100.40, respectively. Bank of Beirut's preferred E and I shares slid by 1.92% and 1.16% to end H1 2014 at the same price of \$25.50.

In conclusion, the variations of volume and value on the BSE should be regarded with caution since the number of listed stocks and overall market depth are low. However, recent claims state that the BSE can witness greater activity, attract a broader range of investors and offer more financing for private sector companies, if it is privatized. Currently, the volume of traded shares on the BSE is frail in comparison with other stock markets in the region.

Total Traded Volume on MENA Stock Exchanges in H1 2014 (In Billions)



Source: Bloomberg, Official MENA Stock Exchanges Publications

Although increasing activity on the BSE may hold great benefits, it remains a problematic issue in Lebanon where most of the large companies are family-owned businesses. Due to their substantial size, these companies are eligible for bank loans and therefore rule out raising funds through becoming a publically listed company. In addition, initial public offerings (IPOs) may bring about capital dilution and may impose more scrutiny on the activities, investments and strategy of the newly listed company. Aside from equity dilution and more transparency requirements, one should not omit that the shakiness of the Lebanese political, economic and social scene remains the major deterrent to IPO activity.



Research Department:

Lana Saadeh

lane.saadeh@blominvestbank.com

Riwa Daou

riwa.daou@blominvestbank.com

Mirna Chami

mirna.chami@blominvestbank.com

Marwan Mikhael

marwan.mikhael@blominvestbank.com



**BLOMINVEST
BANK** S.A.L.

Your Investment Reference