# The LEBANON WEEKLY MONITOR

## Economy

### p.2 INFLATION AT A YEARLY 11.4% IN FEBRUARY

The Consultation & Research Institute's index of consumer prices started to witness growing inflationary trends since the last month of 2019. In fact, the deep economic, financial and monetary crisis has started to affect product and services prices in the market.



## Surveys

### p.5 LEBANON MOF PRESENTATION SOLID WITH NO SUGARCOATING OF ECONOMIC CHALLENGES, SAYS MORGAN STANLEY

According to a recent note by Morgan Stanley, Lebanon's Ministry of Finance (MoF) presentation was solid wherein not only was a coherent framework presented, but also there was no sugarcoating on the scale of economic challenges.



## Corporate News

### p.7 BALANCE SHEET OF FINANCIAL INSTITUTIONS TOTALS US$ 1,308 MILLION AT END-FEBRUARY 2020

According to the latest statistics issued by the Central Bank of Lebanon, the total balance sheet of financial institutions amounted to US$ 1,308.4 million at end-February 2020, down by 5.4% from end-2019.



## Markets In Brief

### p.9 FIRST RATE CUT ON LP TREASURY BILLS IN TEN YEARS

Amid crippling economic, financial and health crisis and along lingering domestic political bickering, Lebanon's capital markets witnessed this week the first rate cut on LP Tbs in 10 years, a further decline in the LP/US$ exchange in the parallel market, while the Eurobond market saw a continuous international demand. In details, the Finance Ministry slashed rates on LP Tbs by 1.80% to 2.50% amid plans to reduce the cost of debt servicing. On the FX market, the LP/US$ exchange rate crossed the LP 2,800 for the first time since August 1992, while Lebanese banks continued to restrict their operations to process necessary and urgent corporate business transactions in line with the Council of Ministers' decision and the recommendations of the Association of Banks in Lebanon. Concurrently, BDL's foreign assets contracted further to US$ 35.2 billion at end-March 2020. At the level of the Eurobond market, international institutional investors remained net buyers of Lebanese sovereigns amid luring bond prices that have fallen below Morgan Stanley's estimated recovery value of 25.

**LEBANON MARKETS: WEEK OF MARCH 30 - APRIL 05, 2020**

| | | | |
|---|---|---|---|
| Money Market | ↔ | BSE Equity Market | ↑ |
| LP Tbs Market | ↑ | Eurobond Market | ↑ |
| LP Exchange Market | ↓ | CDS Market | ↔ |

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# ECONOMY

## INFLATION AT A YEARLY 11.4% IN FEBRUARY

The Consultation & Research Institute's index of consumer prices started to witness growing inflationary trends since the last month of 2019 . In fact, the deep economic, financial and monetary crisis has started to affect product and services prices in the market. This February the year-on-year index has surged by 11.4% compared to results of February 2019.

All of the nine main indices registered increases this February. The highest increase was registered by the "Apparel" category (27.7%), followed by the "Food and Beverages" category (16.8%), the "Transportation and Telecommunications" category (15.7%) and the "Durable Consumer Goods" category (8.3%).

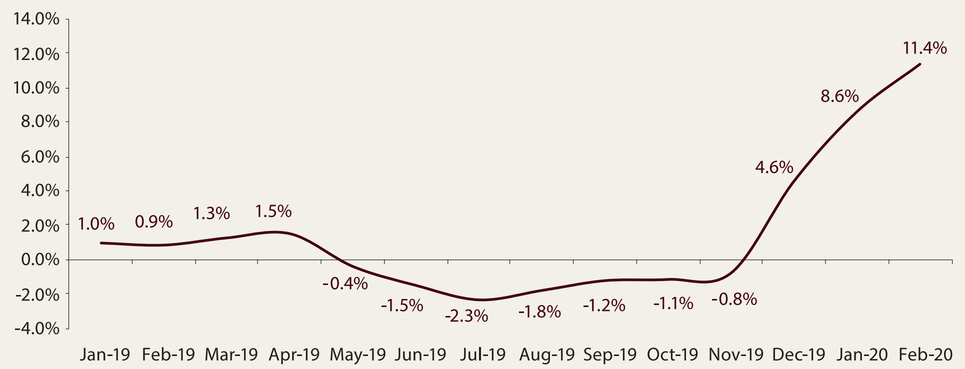
The February 2020 year-on-year "Food and Beverages" index has significantly increased by 16.8% since February 2019. All of the four main indices registered increases this month. The highest surge was recorded by the "Tobacco Products" category (39.4%), followed by the "Nonalcoholic Beverages" category (19.4%), the "Food" category (15.4%) and the "Alcoholic Beverages" category (5.3%).

The index for "Housing" has increased by 4.6% in February 2020 from its level last year. This was due to the increases in the "Household Maintenance" category (11.8%) and the "Household Energy" category (3.4%).

The "Durable Consumer Goods" index has significantly increased by 8.3% since February 2019. Five indices have witnessed increases this February, most significantly those of the "Glassware" category (24.1%), followed by the "Miscellaneous Household Products" category (21.8%) and the "Cleaning Products and Services" category (21.2%). Two other categories recorded decreases in February 2020, namely those of the "Household Furnishings" category (-1.9%) and the "Appliances" category (-0.1%).

The healthcare index has increased by 2.0% since February 2019. This is due to the increases registered in the "Inpatient Services" category (8.6%) and the "Outpatient Services" category (0.1%); whereas, the "Medications and Medical Accessories" category (-2.3%) witnessed a decrease in February 2020.

**CONSUMER PRICE INDEX (YEAR-ON-YEAR)**




*Source: Consultation and Research Institute*

The CPI component for “Transportation and Telecommunications” has surged by 15.7% (year-on-year) in February 2020, due to the considerable increase in the “Transportation” category (17.0%); while the “Telephone Services” category remained unchanged this month.

The index for education has slightly increased by 1.0% from the previous year, due to the increase in all the three categories, as follows: the “Educational Books and Supplies” category (6.5%), followed by the “School Transportation” category (4.7%) and the “Tuition Fees” category (0.1%).

The index for recreation has increased by 2.4% compared to its results in February 2019, as both of its main categories increased: the “Reading Materials and Photography” category (3.9%) and the “Movies and Restaurants” category (2.0%).

The index of “Other Goods and Services” has increased by 4.2% since February 2019. This was basically due to the huge increase registered in the “Jewelry” category (21.3%). On the other, a sole category recorded a decrease, namely that of “Personal Care” category (-4.4%). The “Travel” and the “Financial Services” categories remained unchanged this February.

## LEBANESE GOVERNMENT’S INVESTOR PRESENTATION IS A POSITIVE TOWARDS ENGAGEMENT WITH CREDITORS, AS PER BANK OF AMERICA MERRILL LYNCH

According to Bank of America Merrill Lynch, the Lebanese government’s investor presentation is a positive first step towards broader engagement with creditors. The presentation steered away from details and did not entail putting forward a restructuring proposal, but unveiled ongoing work on a comprehensive economic plan. However, reform credibility is likely to remain an issue. Overall, the presentation as well as economic and legal challenges confirms our view that it could be difficult for bondholders to preserve value in the restructuring.

According to the report, authorities’ estimates of 2019 macro outturns are broadly in line with those of Bank of America Merrill Lynch and do not yet reflect the coronavirus crisis. The government’s 2020 nominal GDP forecast of US$ 34.4 billion suggests either a) projections of further weakening in the parallel Fx rate this year; or, b) plans for exchange rate unification.

It is worth noting that, pillars of the comprehensive economic plan suggest understanding of the failures of the growth model. Markets are likely to remain skeptical about reform efforts, in their view. This reflects mixed developments notably, a proposed capital controls law has been withdrawn at the Cabinet level (which puts the ball back in the Banque du Liban (BdL) court), no progress on the appointment of BdL vice-governors, but some progress in terms of appointment of Electricite du Liban (EdL) board members.

Furthermore, authorities suggested that, at end-January, US$ 22 billion of the US$ 29 billion of gross BdL Fx holdings (excluding eurobonds) are liquid. Authorities also suggested US$18bn of the gross BdL Fx holdings represent bank mandatory reserves held for regulatory purposes.

On the economic side, foreign exchange Required Reserve Requirements (RRRs) should be indistinguishable from other Fx reserves, but there could be an argument that BdL disposal of FX RRRs is not possible without legal changes.

Additionally, BdL’s intermediate Circular 547 of 3 March may further deploy BdL Fx reserves domestically while incurring credit risk. As part of the coronavirus crisis response, BdL allowed banks to extend LP- and FX-denominated exceptional loans at 0% during the three-month period between March and May to corporates facing liquidity issues. The usage of these loans would be solely to support corporates facing difficulties in the payment of loans, wages, operation and production costs due during this three-month period.

On another note, the government aims to ambitiously complete the restructuring exercise by year-end. The presentation confirms that domestic debt would be restructured in due course. The stock of bilateral and multilateral loans of US$ 2 billion would not be restructured, according to authorities. Bank of America Merrill Lynch estimates an external debt service of US$ 0.3 billion for these loans for 2020. The presentation clarifies that the main principles for the public debt restructuring will involve debt sustainability (debt dynamics to be driven by medium-term and long-term debt refinancing costs commensurate with economic growth trajectory and primary surplus target), refinancing capacity (manageable LP- and FX-debt rollovers), external financing balance (Fx-denominated govern debt to be compatible with current account dynamics and Fx reserves accumulation objectives) and reasonable buffers against exogenous shocks.

Moreover, the Lebanese government committed to seeking a transparent, good faith collaborative approach, and "equitable" treatment of stakeholders (which we note could be different from equal treatment). The government has launched an identification exercise (to conclude on 17 April) and will conduct "consultations" with bondholders. "Consultations" could suggest that the government prefers not to deal with a creditor committee, but with bondholders on an ad hoc basis. This may also reflect the potentially diverse investor base. Bilateral consultations could make it more challenging for bondholders to coordinate and coalesce around a unified negotiating position. We think the government's access to asymmetric information about broader bondholder preferences could help it formulate a restructuring proposal on more unfavorable terms to bondholders than otherwise.

## LEBANON'S OUTLOOK REMAINS HIGHLY UNCERTAIN WITH CONSIDERABLE DOWNSIDE RISKS TO FINANCIAL AND SOCIAL STABILITY, AS PER BARCLAYS

According to Barclays, in order to protect its foreign exchange reserves, Lebanon has officially defaulted on its sovereign bonds for the first time in the country's history. The authorities have been forced to take unprecedented measures and the cabinet does not seem to favor severing the exchange rate at this stage.

The combination of formal capital controls, lingering uncertainty, and the still elevated external deficit will make it extremely challenging for the authorities to maintain the long standing foreign exchange regime. Without an economic reform program that would include several contingencies to address negative feedback loops, Lebanon will quickly face another impossible trinity. achieving an orderly debt restructuring with no external financial support, backing a comprehensive reform plan, while the political landscape remains highly divided and the government's support in parliament is weak.

Lebanon's outlook remains therefore highly uncertain with considerable downside risks to financial and social stability, as per Barclays.

The government has officially requested IMF technical assistance but a fully-funded IMF program remains unlikely, in Barclays view, despite growing calls to engage with the IMF.

Furthermore, the payment of external debt liabilities was a catalyst for popular and political pressure relegating the broader question of how to address the endemic twin deficits and a leveraged financial system to secondary place, as per Barclays. While securing financing over the coming period will likely be the focus of such discussions.

For example, any debt sustainability discussions cannot be dissociated from the exchange-rate regime and financial stability considerations, especially about bank recapitalization needs in case of debt restructuring that may ultimately affect depositors. another crucial point of discussion will be how the financing gap will be secured over the next few years in the absence of a formal IMF program and other bilateral and multilateral donors. reforms will be complicated by the spread of Covid-19 which has tested the country's healthcare system, exacerbating the economic contraction, as per the same source.

## SURVEYS

### LEBANON MOF PRESENTATION SOLID WITH NO SUGARCOATING OF ECONOMIC CHALLENGES, SAYS MORGAN STANLEY

According to a recent note by Morgan Stanley, Lebanon's Ministry of Finance (MoF) presentation was solid wherein not only was a coherent framework presented, but also there was no sugarcoating on the scale of economic challenges.

The Morgan Stanley report also highlighted that it is more confident about its debt restructuring scenario wherein it penciled the bulk of the restructuring burden to fall on Eurobond holders and just re-profiling on LBP debt and only implicit bail ins on deposits rather than explicit haircut.

The restructuring plan included a comprehensive plan involving both LBP and US$ papers as well as a restructuring of the commercial banking sector. During the presentation, the exchange rate framework was highlighted as key to the recovery plan.

It was mentioned that the overarching theme for the LBP debt restructuring would be the primary balance outlook, and FX debt restructuring would be driven by available FX resources. As Lebanon would seek to achieve a reasonable primary balance surplus, the statement above meant that LBP debt restructuring would look to focus on reprofiling and coupon holidays rather than haircuts.

FX liquidity is tough to gauge as Morgan Stanley highlighted many times before that one can paint a picture of net FX reserves from being significantly negative to as high as US$ 10 billion. Even at the higher end of the estimated liquidity, considering the stock of Eurobond debt US$ 31.3 billion, a steep haircut may be needed, as per the report.

However, Morgan Stanley added that the equitable treatment of creditors is a positive, which should allay concerns around different treatment of domestic banks versus foreign Eurobond holders.

Lebanon expects nominal GDP to contract to US$ 34.4 billion from US$ 55 billion in 2018. This is relevant because the debt to GDP ratio, assuming the current peg stays in place balloons to 280% of GDP from the current 176% of GDP, which in turn means that a steeper haircut is needed. According to Morgan Stanley, the probability of harsh debt restructuring is at 60%.

Moving on to banking sector reforms, the latter would aim to disentangle links between BDL and the banks, and ensure that the banking sector provides credit to the real economy. Morgan Stanley believes the way to achieve this is to reduce interest rate banks earn on placing liquidity at the BDL or purchases of MoF debt. This also leads to lower gross financing needs for the sovereign or a relief of sorts.

Morgan Stanley added that the MoF presentation could have given more clarity on the primary balance path, and also update the public around talks with the IMF or how authorities plan to stop dollar leakages from the system.

### LEBANON ECONOMY 157TH FREEST GLOBALLY IN HERITAGE FOUNDATION INDEX OF ECONOMIC FREEDOM

Lebanon's economic freedom score is 51.7, making it 157th globally in the Heritage Foundation's 2020 Index of Economic Freedom, with the country's overall score increasing by 0.6 point primarily because of an increase in the government integrity score, according to the 2020 Index of Economic Freedom issued by Heritage Foundation. Lebanon also came in 11th in the Middle East and North Africa region out of 13 countries.

Economic freedom is based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom: Rule of Law (property rights, government integrity, judicial effectiveness), Government Size (government spending, tax burden, fiscal health), Regulatory Efficiency (business freedom, labor freedom, monetary freedom) and Open Markets (trade freedom, investment freedom, financial freedom). Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these twelve economic freedoms, with equal weight being given to each.

Based on its aggregate score, each of the 180 ranked countries were classified as "free" (i.e. combined scores of 80 or higher), "mostly free" (70-79.9), "moderately free" (60-69.9), "mostly unfree" (50-59.9), or "repressed" (under 50).

Two countries within the MENA region were classified as "mostly free", namely UAE and Qatar. Bahrain, Jordan, Oman, Morocco, Kuwait and Saudi Arabia were among economies to be "moderately free". The remaining four are seen as "mostly unfree" and "repressed".

UAE was the region's top performer, coming in the 18th spot out of 180 countries worldwide. It has also registered a decrease of 1.4 points in its score annually. Sudan was at the lower end of the scale, coming in the 173rd position globally. Its score went down by 2.7 points.

Lebanon's economic freedom score is 51.7, primarily because of an increase in the government integrity score. Lebanon is ranked 11th among 13 countries in the Middle East and North Africa region, and its overall score is well below the regional and world averages. The Lebanese economy has been mostly unfree for eight years in a row. GDP growth has been correspondingly weak, as per the report.

The Heritage Foundation also added that Lebanon's feeble political institutions have been unable to address the deep structural issues that have resulted in severely compromised rule of law, one of the main conditions stifling economic freedom in the country. The government's economic policy in recent years has concentrated on improving fiscal management and strengthening foreign investor confidence, but implementation of reforms has been weak, and the results have been mixed.

**HERITAGE FOUNDATION INDEX OF ECONOMIC FREEDOM RANKINGS OF MENA COUNTRIES**

| | Score | Global Ranking |
|---|---|---|
| United Arab Emirates | 76.2 | 18 |
| Qatar | 72.3 | 31 |
| Bahrain | 66.3 | 63 |
| Jordan | 66.0 | 66 |
| Oman | 63.6 | 75 |
| Morocco | 63.3 | 78 |
| Kuwait | 63.2 | 79 |
| Saudi Arabia | 62.4 | 83 |
| Tunisia | 55.8 | 128 |
| Egypt | 54.0 | 142 |
| **Lebanon** | **51.7** | **157** |
| Algeria | 46.9 | 169 |
| Sudan | 45.0 | 173 |

*Sources: Heritage Foundation, Bank Audi's Group Research Department*

## CORPORATE NEWS

### BALANCE SHEET OF FINANCIAL INSTITUTIONS TOTALS US$ 1,308 MILLION AT END-FEBRUARY 2020

According to the latest statistics issued by the Central Bank of Lebanon, the total balance sheet of financial institutions amounted to US$ 1,308.4 million at end-February 2020, down by 5.4% from end-2019.

In details, currency and deposits with Central Banks fell from US$ 54.9 million at end-2019 to US$ 49.9 million at end-February 2020.

Claims on resident customers declined by 4.7% from end-2019 to US$ 594.5 million at end-February 2020. Claims on non-resident customers fell from US$ 47.3 million at end-2019 to US$ 30.0 million at end-February 2020.

Claims on resident financial sector rose from US$ 306.7 million at end-2019 to US$ 314.5 million at end-February 2020. Claims on non-resident financial sector decreased by 49.8% from end-2019 to US$ 25.7 million at end-February 2020.

Claims on the public sector stood at US$ 4.8 million at end-February 2020, down by 7.2% from end-2019.

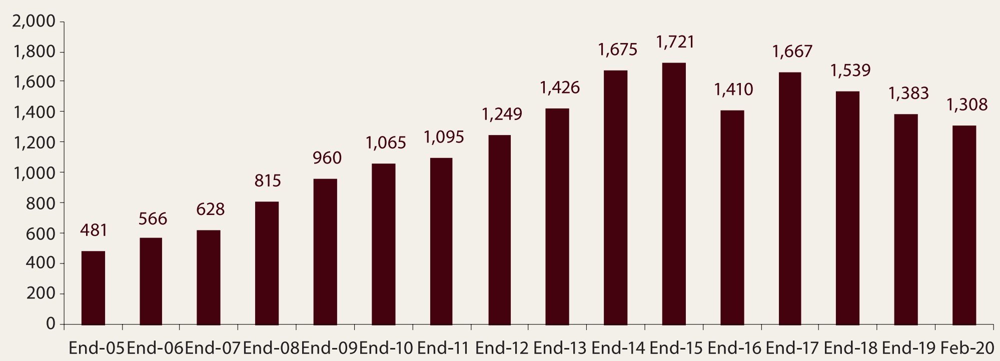
Securities portfolio registered US$ 87.9 million at end-February 2020, down by 2.2% from its level at end-2019.

Tangible assets reported US$ 48.3 million at end-February 2020, up by 3.3% from end-2019. Intangible assets declined from US$ 139.1 million at end-2019 to US$ 136.4 million at end-February 2020.

On the liabilities side, resident customer deposits registered US$ 160.6 million at end-February 2020, down by 6.1% from end-2019. Non-resident customer deposits fell to US$ 15.7 million at end-February 2020, from US$ 17.1 million at end-2019.

Resident financial sector liabilities stood at US$ 187.1 million at end-February 2020, declining by 16.3% from end-2019. Non-resident financial liabilities decreased from US$ 124.7 million at end-2019 to US$ 111.3 million at end-February 2020.

**BALANCE SHEET OF FINANCIAL INSTITUTIONS (US$ MILLION)**




*Sources: Central Bank of Lebanon, Bank Audi's Group Research Department*

Public sector deposits stood at US$ 3.9 million at end-February 2020, down by 2.1% from end-2019.

Debt securities issued stood at US$ 107.3 million at end-February 2020, down by 4.1% from its level at end-2019.

Capital accounts reported US$ 472.1 million at end-February 2020, down from US$ 486.4 million at end-2019.

## WORLD BANK APPROVES US$ 40 MILLION TO STRENGTHEN CAPACITY OF MINISTRY OF PUBLIC HEALTH

The World Bank has approved the re-allocation of US$ 40 million under the current US$ 120 million Health Resilience Project to strengthen the capacity of the Ministry of Public Health (MoPH) to respond to the coronavirus crisis by equipping governmental hospitals and increasing their ability to test and treat suspected cases.

Contracts with the World Health Organization (WHO) and United Nations Office for Project Services (UNOPS) have been concluded. A fast-track procurement of critically-needed medical equipment and supplies is already underway.

There are concerns that the outbreak will particularly hit the poor and the refugee population. The Government has prepared a Health Sector Response Plan, mobilized resources to equip additional public hospitals with critically-needed medical equipment, and strengthened risk communication to the population. Despite these efforts, the unmet needs are immense, and Lebanon is under-equipped to respond to such a global pandemic, said a statement by the bank.

According to the statement, the approved funds will support the government in surveillance and case detection, case management and protection of health workers and multi-sectoral response to support activities such as operating command rooms and community engagement campaigns.

Furthermore, priority will be given to fast-track emergency procurement of required medical goods and services through collaboration with UN agencies that have prompt and streamlined access to supply chains, which are currently under considerable pressure due to high global demand. WHO and UNOPS are already in contact with MoPH.

The World Bank's standards to procure equipment and supplies will be used. This includes the procurement of personal protective equipment (PPE) and five PCR machines with testing kits covering six-month supply needs of public hospitals, 50 ventilators, and 12 electrocardiogram machines, as well as other supplies, to be delivered over a period of six weeks.

MoPH is procuring 70 additional ventilators from private firms following a competitive bidding process. The procurement of goods and services is carried out in accordance with the World Bank's Procurement Regulations. Procurement activities will be published on the MoPH website, in addition to the World Bank's website and the United Nations Development (UNDP) platform.

Technical and financial audits will be conducted to verify the contracting approach, the appropriateness of prices relative to market prices, the adherence to acceptable and agreed procurement procedures, and the appropriate use of funds for the intended purposes.

# CAPITAL MARKETS

## MONEY MARKET: OVERNIGHT RATE STABLE AT 3% AMID LP CDS DISCOUNTS

The local currency liquidity remained quite abundant over this week after Lebanese banks discounted their LP Certificate of Deposits at the Central Bank of Lebanon. Within this context, the overnight rate remained quoted at a low level of 3% this week, noting that the official rate was slashed by 2.0%, moving from 3.90% previously to 1.90%.

In parallel, the latest monetary aggregates released by the Central Bank of Lebanon for the week ending 19th of March 2020 showed that total resident banking deposits contracted by LP 1,090 billion, accumulating total contractions of LP 3,293 billion since the beginning of March. The weekly decline is mainly triggered by a LP 555 billion fall in total LP resident deposits amid a LP 295 billion drop in LP saving deposits and a LP 260 billion decrease in LP demand deposits, while foreign currency resident deposits contracted by LP 535 billion (the equivalent of US$ 355 million). Within this context, the money supply in its largest sense (M4) contracted by LP 867 billion amid a LP 211 billion growth in the currency in circulation and a slight increase in the non-banking sector Tbs portfolio of LP 12 billion.

**INTEREST RATES**

| | 03/04/20 | 27/03/20 | 27/12/19 | |
|---|---|---|---|---|
| Overnight rate (official) | 1.90% | 3.90% | 3.90% | ↓ |
| 7 days rate | 2.00% | 4.00% | 4.00% | ↓ |
| 1 month rate | 2.75% | 4.75% | 4.75% | ↓ |
| 45-day CDs | 2.90% | 4.90% | 4.90% | ↓ |
| 60-day CDs | 3.08% | 5.08% | 5.08% | ↓ |

*Source: Bloomberg*

## TREASURY BILLS MARKET: DROP IN LP TBS RATES

Lebanon's Ministry of Finance slashed interest rates on the three-month, six-month, one-year, three-year, five-year and seven-year LP Treasury bills categories at range of 1.80% to 2.50%. The Treasury bills auction results for value date 26th of March 2020 showed that total subscriptions amounted to LP 194 billion and were distributed between LP 100 billion in the three-year category and LP 94 billion in the seven-year category, while no subscriptions were made in the six-month category. These compare to maturities of LP 110 billion, resulting into a nominal weekly surplus of LP 84 billion.

Also, the latest Tbs auction results for value date 2nd of April 2020 showed that the Central Bank of Lebanon has allowed banks to subscribe in full to the three-month, one-year and five-year categories.

On a cumulative basis, total subscriptions amounted to LP 3,394 billion during the first quarter of 2020. The ten-year category captured 33.7% of the total (the equivalent of LP 1,143 billion), followed by the five-year category with 20.8% (the equivalent of LP 705 billion), the one-year category with 13.5% (the equivalent of LP 457 billion), the seven-year categories with 10.7% (the equivalent of LP 364 billion), the three-year category with 9.8% (the equivalent of LP 333 billion), the two-year with 8.3% (the equivalent of LP 282 billion), while the three-month and six-month categories accounted for the remaining 3.2% (the equivalent of LP 110 billion in total). In parallel, total maturities reached LP 2,806 billion, resulting into a nominal surplus of LP 589 billion in January 2020.

| TREASURY BILLS | 03/04/20 | 27/03/20 | 27/12/19 |
|---|---|---|---|
| 3-month | 3.50% | 5.30% | 5.30% |
| 6-month | 4.00% | 4.00% | 5.85% |
| 1-year | 4.50% | 6.50% | 6.50% |
| 2-year | 7.00% | 7.00% | 7.00% |
| 3-year | 5.50% | 5.50% | 7.50% |
| 5-year | 6.00% | 8.00% | 8.00% |
| 7-year | - | 6.50% | 9.00% |
| **Nom. Subs. (LP billion)** | | **194** | **120** |
| Short -term (3&6 mths) | | 0 | - |
| Medium-term (1&2 yrs) | | - | 20 |
| Long-term (3 yrs) | | 100 | - |
| Long-term (5 yrs) | | - | 100 |
| Long-term (7 yrs) | | 94 | - |
| **Maturities** | | **110** | **61** |
| **Nom. Surplus/Deficit** | | **84** | **59** |

*Sources: Central Bank of Lebanon, Bloomberg*

## FOREIGN EXCHANGE MARKET: FURTHER DECLINE IN LP/US$ EXCHANGE RATE IN PARALLEL MARKET

The Lebanese pound depreciated further against the US dollar in the parallel market this week, with the "buy rate" crossing above the LP 2,800/US$ threshold for the first time since August 14, 1992 to reach LP 2,850/US$, while the "sell rate" was quoted at LP 2,750.

In parallel, the Central Bank of Lebanon's latest bi-monthly balance sheet ending 31st of March 2020 showed that BDL's foreign assets contracted by US$ 512 million during the first second of the month to reach US$ 35.2 billion at end-March. When excluding the Central Bank of Lebanon's Lebanese Eurobond holdings estimated at US$ 5.03 billion and the facilities provided by BDL to commercial banks, BDL's foreign assets would hover around US$ 22 billion at end-March 2020.

| EXCHANGE RATES | 03/04/20 | 27/03/20 | 27/12/19 |
|---|---|---|---|
| LP/US$ | 1,507.50 | 1,507.50 | 1,507.50 |
| LP/£ | 1,854.23 | 1,841.26 | 1,970.00 |
| LP/¥ | 13.92 | 13.85 | 13.77 |
| LP/SF | 1,542.83 | 1,563.96 | 1,543.78 |
| LP/Can$ | 1,064.92 | 1,069.22 | 1,150.59 |
| LP/Euro | 1,627.80 | 1,658.10 | 1,679.20 |

*Source: Bank Audi's Group Research Department*

## STOCK MARKET: SHY WEEKLY EQUITY PRICE GAINS, SUPPORTED BY SOLIDERE SHARES

The BSE total turnover surged from US$ 830 thousand last week to US$ 16.4 million this week, noting that Bank Audi's "listed" share price captured 76.5% of activity (circa US$ 12.5 million), followed by Byblos Bank's "listed" shares with 12.8%, Solidere shares with 10.69% and the industrial shares with 0.1%.

As far as prices are concerned, the BSE price index increased by a tiny 0.4%, mainly supported by price gains in Solidere shares. Solidere "A" share price jumped by 9.9% to US$ 9.99. Solidere "B" share price went up by 1.6%. Also, Ciments Blancs Nominal's share price surged by 5.5% to US$ 2.90. In contrast, Bank Audi's "listed" share price plunged by 10.0% to US$ 1.35. Byblos Bank's "listed" share price dropped by 7.4% to US$ 0.75.

**AUDI INDICES FOR BSE**

| 22/1/96=100 | 03/04/20 | 27/03/20 | 27/12/19 | |
|---|---|---|---|---|
| Market Cap. Index | 262.74 | 261.64 | 316.37 | ↑ |
| Trading Vol. Index | 143.73 | 9.10 | 24.97 | ↑ |
| Price Index | 57.60 | 57.36 | 69.36 | ↑ |
| Change % | 0.42% | -0.55% | 2.37% | ↑ |
| | **03/04/20** | **27/03/20** | **27/12/19** | |
| Market Cap. $m | 6,233 | 6,207 | 7,506 | ↑ |
| No. of shares traded (Exc. BT) | 12,098,916 | 92,864 | 333,997 | ↑ |
| Value Traded $000 (Exc. BT) | 16,397 | 830 | 2,294 | ↑ |
| o.w. : Solidere | 1,753 | 829 | 2,294 | ↑ |
| Banks | 14,635 | 1 | 0 | ↑ |
| Others | 9 | 0 | 0 | ↑ |

*Sources: Beirut Stock Exchange, Bank Audi's Group Research Department*

## BOND MARKET: INTERNATIONAL BID FOR LEBANESE SOVEREIGNS

After announcing that Lebanon would discontinue payments on all its foreign currency denominated Eurobonds, and following an estimated recovery value of 25 by Morgan Stanley, international institutional investors continued to show some bid for Lebanese sovereigns. Within this context, papers maturing between 2020 and 2037 saw weekly price expansions ranging between 1.0 pt and 3.5 pts to reach 15.0 cents per dollar at the lowest and 19.0 cents per dollar at highest. However, the weighted average bond yield rose from 316% last week to 496% this week as the yield on the US$ 700 million bond maturing on April 14, 2020 reached 17,217%.

It is worth mentioning that the Ministry of Finance has conducted on March 27, 2020 an investor presentation that has updated bondholders on the latest macroeconomic developments and provided an overview of the government's reform plan and the guiding principles for the public debt restructuring. Also, the MoF said that the government of Lebanon is prepared to engage in good faith discussions with its creditors to explore options to make Lebanon's public debt sustainable.

**EUROBONDS INDICATORS**

| | 03/04/20 | 27/03/20 | 27/12/19 | |
|---|---|---|---|---|
| Total tradable size $m | 31,364 | 31,364 | 29,564 | ⇔ |
| o.w.: Sovereign bonds | 30,114 | 30,114 | 28,314 | ⇔ |
| Average Yield | 496% | 316% | 29.99% | ↑ |
| Average Life | 8.04 | 8.06 | 7.50 | ↓ |
| Yield on US 5-year note | 0.38% | 0.47% | 1.71% | ↓ |

*Source: Bank Audi's Group Research Department*

## INTERNATIONAL MARKET INDICATORS

| | 03-Apr-20 | 27-Mar-20 | 31-Dec-19 | Weekly change | Year-to-date change |
|---|---|---|---|---|---|
| EXCHANGE RATES | | | | | |
| YEN/$ | 108.53 | 107.97 | 109.61 | 0.5% | -1.0% |
| $/£ | 1.227 | 1.246 | 1.275 | -1.5% | -3.8% |
| $/Euro | 1.080 | 1.114 | 1.147 | -3.1% | -5.8% |
| STOCK INDICES | | | | | |
| Dow Jones Industrial Average | 21,052.53 | 21,636.78 | 28,538.44 | -2.7% | -26.2% |
| S&P 500 | 2,488.65 | 2,541.47 | 3,230.78 | -2.1% | -23.0% |
| NASDAQ | 7,373.08 | 7,502.38 | 8,972.60 | -1.7% | -17.8% |
| CAC 40 | 4,154.58 | 4,351.49 | 5,978.06 | -4.5% | -30.5% |
| Xetra Dax | 9,525.77 | 9,632.52 | 13,249.01 | -1.1% | -28.1% |
| FT-SE 100 | 5,415.50 | 5,510.33 | 7,542.44 | -1.7% | -28.2% |
| NIKKEI 225 | 17,820.19 | 19,389.43 | 23,656.62 | -8.1% | -24.7% |
| COMMODITIES (in US$) | | | | | |
| GOLD OUNCE | 1,620.81 | 1,628.16 | 1,517.27 | -0.5% | 6.8% |
| SILVER OUNCE | 14.39 | 14.47 | 17.85 | -0.6% | -19.4% |
| BRENT CRUDE (per barrel) | 34.11 | 24.93 | 66.00 | 36.8% | -48.3% |
| LEADING INTEREST RATES (%) | | | | | |
| 1-month Libor | 0.99 | 0.99 | 1.71 | 0.00 | -0.72 |
| US Prime Rate | 3.25 | 3.25 | 4.75 | 0.00 | -1.50 |
| US Discount Rate | 0.25 | 0.25 | 2.25 | 0.00 | -2.00 |
| US 10-year Bond | 0.59 | 0.67 | 1.92 | -0.08 | -1.33 |

*Sources: Bloomberg, Bank Audi's Group Research Department*