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## The LEBANON WEEKLY MONITOR

### Economy

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The Alpha Report, outlining the performance and positioning of the first 16 banks in Lebanon with deposits exceeding US\$ 2 billion, was issued by Bankdata Financial Services for the first quarter of 2019. It suggests tough operating conditions for Alpha banks locally and regionally.

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### Markets In Brief

#### p.9 BOND PRICE RECOVERY, TRACKING EMERGING MARKETS ON US FED RATE CUT BETS

Lebanon's capital markets witnessed this week the return of international bid on the Eurobond market, while the equity market pursued its downward trajectory and the foreign exchange market continued to witness net conversions in favor of foreign currencies. In details, the Eurobond market saw net international buying operations this week, mainly tracking increases in emerging debt markets after the US Federal Reserve signaled possible interest rate cuts this year. On the equity market, activity remained quite shy, while the BSE price index continued to trace a downward slope, retreating by 0.7% week-on-week. At the level of the FX market, activity remained in favor of foreign currencies, mainly for commercial reasons, while BDL's foreign assets reached US\$ 36.6 billion at end-May 2019, covering 73.3% of LP money supply and 21.8 months of imports.

#### LEBANON MARKETS: WEEK OF JUNE 03 - JUNE 09, 2019

Money Market



LP Tbs Market



LP Exchange Market



BSE Equity Market



Eurobond Market



CDS Market



## ECONOMY

### ALPHA BANKS FACING INCREASINGLY TOUGH OPERATING CONDITIONS DOMESTICALLY AND REGIONALLY

The Alpha Report, outlining the performance and positioning of the first 16 banks in Lebanon with deposits exceeding US\$ 2 billion, was issued by Bankdata Financial Services for the first quarter of 2019.

Measured by the consolidated assets of Alpha banks in both their domestic and foreign markets of presence, banking activity reported a mild growth of 0.3% in the first quarter of 2019 to reach US\$ 259.3 billion at end-March. Domestically, assets grew by 1.2%. On the other hand, assets of foreign entities contracted by 5.3%, mainly due to exchange depreciation in some regional markets and their corollary FX translation impact on banks balance sheets. With banks adopting a consolidation stance, the network of Alpha banks reported stagnation with merely 3 new branches opened, while the staff count almost maintained its end-year level.

While assets under management managed to report a positive growth of 1.1% in the first quarter to reach US\$ 25.6 billion at end-March, consolidated deposits contracted by 1.0% over the period at both domestic and foreign levels. The former declined by 0.9% while the latter dropped by 1.3%. The most important contraction is that of loans, with Alpha banks following de-risking strategies within the prevailing environment. Consolidated loans contracted by 3.9% in the first quarter amid a 4.3% contraction in domestic loans and a 2.8% drop in foreign loans.

Subsequently, Alpha banks managed to further reinforce their liquidity positions. The ratio of net primary liquidity as a percentage of deposits reached a high of 59.2% at end-March 2019, against 57.9% at end-December 2018 and 49.3% at end-March 2018. This liquidity reinforcement is tied to the loans to deposits ratio of Alpha banks reaching 32.9% at end-March 2019.

The first quarter of 2019 saw a slight deterioration of asset quality. Gross credit-impaired loans (Stage 3) rose by 1.4% over the first quarter to reach US\$ 6.1 billion. As a percentage of gross loans, they rose from 8.89% in December 2018 to 9.36% in March 2019, with loan loss reserves standing at 60.67% of credit impaired loans (Stage 3), excluding real guarantees.

#### ALPHA BANKS RANKING BY MAJOR AGGREGATES AS AT MARCH 2019

(In US\$ million)	Total assets		Customers' deposits		Loans & advances		Shareholders' equity		Net profits	
	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank
Bank Audi Sal	46,437	1	31,320	1	12,471	1	3,996	1	122	1
BLOM Bank Sal	37,770	2	27,497	2	6,906	2	3,387	2	117	2
Société Générale de Banque au Liban Sal - SGBL	26,552	3	18,258	4	5,701	4	1,947	5	42	3
Byblos Bank Sal	25,375	4	18,505	3	5,310	5	1,945	6	27	8
Fransabank Sal	22,629	5	16,773	5	6,557	3	2,083	4	30	5
Bankmed Sal	18,955	6	13,073	6	3,847	8	1,259	8	7	12
Bank of Beirut Sal	18,884	7	13,040	7	5,072	6	2,321	3	31	4
Banque Libano-Française Sal	14,823	8	10,839	8	4,017	7	1,352	7	30	6
Crédit Libanais Sal	12,720	9	9,398	9	3,254	9	908	9	19	9
IBL Bank Sal	8,257	10	5,769	11	843	15	656	10	29	7
BBAC Sal	7,983	11	6,179	10	1,763	11	652	11	13	10
Lebanon and Gulf Bank Sal	6,122	12	4,457	12	1,273	12	443	12	10	11
First National Bank Sal	5,131	13	3,803	13	920	13	414	14	4	13
Creditbank Sal	4,401	14	3,402	14	1,937	10	417	13	2	15
Saradar Bank Sal	3,298	15	2,182	15	890	14	239	15	3	14

Source: Bankdata Financial Services

Alpha banks also saw their net profits contracting within the context of a tough operating environment in Lebanon and in foreign markets of presence. Net profits actually declined by 8.1% in the first quarter of 2019 relative to the same period of last year. Domestic profits, which account for 85% of consolidated profits, were down by 8.5% in the first three months. Despite the fact that operating expenses were down by 4.2% within the context of cost control efforts by Alpha banks, operating profit contracted by 7.8% driven by the 5.9% drop in net operating income at large.

As a result, return ratios were on the downside. The return on average assets contracted from 0.90% in the first quarter of 2018 to 0.75% in the first quarter of 2019, and the return on average equity dropped from 9.58% to 8.85% respectively (and from 10.26% to 9.24% for the return on average common equity). Such a contraction comes within the context of a drop in asset utilization from 2.41% to 2.09% along with a contraction in net operating margin from 37.29% to 35.76%. The drop in asset utilization is driven by a contraction in spread from 1.86% to 1.57%, while the ratio of non-interest income to average assets reported a relative stability. In turn, the drop in net operating margin is mainly due to a rise in tax cost (with an additional LP 90 billion between the first quarters of 2018 and 2019) following new taxes on banks, amid a stable cost to income.

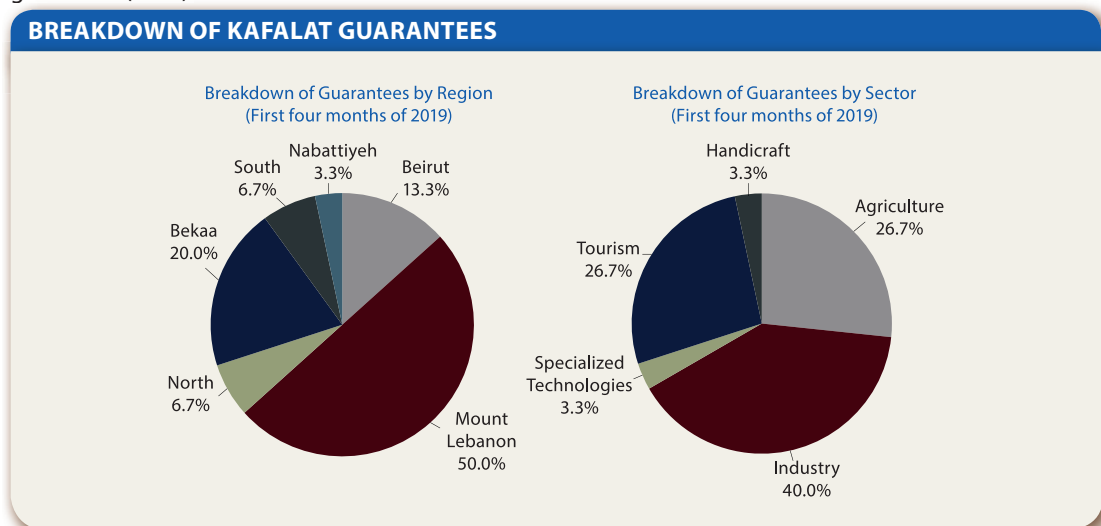
Finally, despite tougher operating conditions, Alpha banks continue to display adequate financial standing ratios, with above-peer liquidity ratios, sound capital adequacy metrics and still acceptable (albeit slightly deteriorating) asset quality indicators, thus making sure the country's financial sector steers rather safely through the persisting uncertainties.

## VALUE OF KAFALAT GUARANTEES DOWN TO US\$ 3.5 MILLION IN FIRST FOUR MONTHS OF 2019

Figures released by the Kafalat Corporation indicate that loans extended to small and medium sized companies under the guarantee of Kafalat totaled US\$ 3.5 million in the first four months of 2019, down by 80.4% year-on-year. Meanwhile, the aggregate number of guarantees amounted to 30 in the first four months of 2019, falling from 137 guarantees given in the corresponding period of last year.

Industry captured the lion's share when it comes to the number of extended guarantees in the first four months of 2019, with 12 or 40.0% of the total number of guarantees. Tourism and agriculture came in next with 8 guarantees each (26.7%) over the same period. Specialized technologies and handicrafts both had only 1 guarantee (3.3%) in the first four months of 2019.

As for the distribution of guarantees by area, Mount Lebanon accounted for the biggest share of given guarantees with 15 guarantees (50.0%), followed by Bekaa with 6 guarantees (20.0%), Beirut with 4 guarantees (13.3%), while the North and the South had 2 guarantees each (6.7%). Nabattiyeh had 1 guarantee (3.3%).



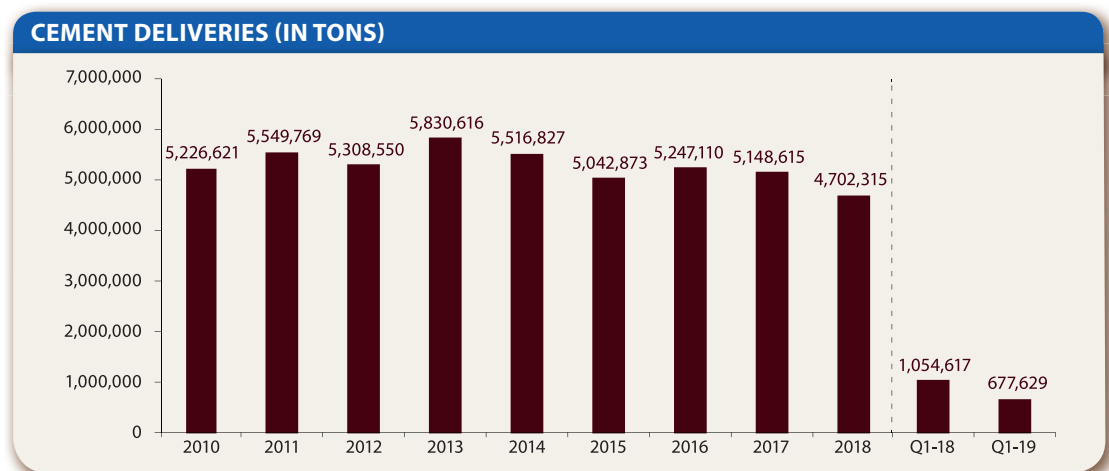
Sources: Kafalat, Bank Audi's Group Research Department

**CEMENT DELIVERIES DOWN BY 35.7% IN FIRST QUARTER OF 2019**

Figures released by the Central Bank of Lebanon show that cement deliveries, a coincident indicator of construction activity, declined by a yearly 35.7% in the first three months of 2019.

Cement deliveries actually reached circa 677,629 tons in the first quarter of 2019, down from 1,054,617 tons in the corresponding period of 2018, reflecting a continued slowdown in the construction activity in the country.

It is worth recalling that cement deliveries reached 4,702,315 in 2018, down from 5,148,615 tons in 2017.

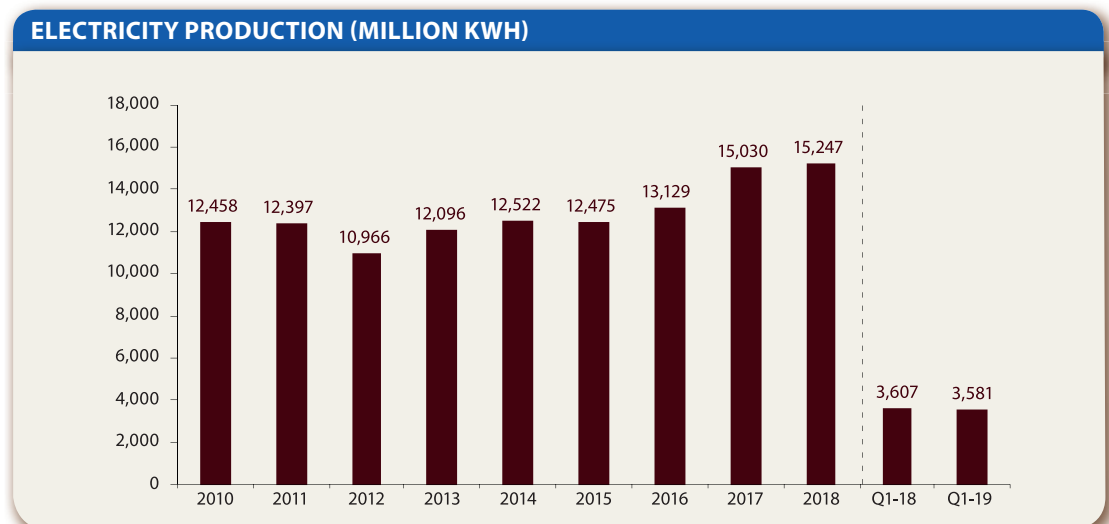


Sources: Central Bank of Lebanon, Bank Audi's Group Research Department

**ELECTRICITY PRODUCTION DOWN BY 1.2% IN FIRST THREE MONTHS OF 2019**

Data published by the Central Bank of Lebanon shows that electricity production fell by 0.7% year-on-year in the first three months of 2019. The production totaled 3,581 million Kilowatt Hour (kWh) in the first quarter of 2019, down from 3,607 million kWh in the first three months of 2018.

In a backward look, electricity production rose by a yearly 1.4% last year from 15,030 million kWh in 2017 to 15,247 million kWh in 2018.



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

## SURVEYS

### BANK OF AMERICA-MERRILL LYNCH SAYS THE 2019 BUDGET COULD BE A START TO A MULTI-YEAR FISCAL ADJUSTMENT PROCESS

According to a new report released by Bank of America-Merrill Lynch, entitled "Starting fiscal consolidation", the 2019 budget suggests a renewed sense of political urgency to adopt fiscal reforms and raises the likelihood of a start to a multi-year fiscal adjustment process. This would be needed to narrow still elevated macro imbalances and support the disbursement of funding pledged at the CEDRE (economic conference for development and reform) donor conference, likely from 2020 onwards.

They believe the 2019 budget has room to deliver fiscal adjustment of 1 ppt of GDP in 2H19. Although from a higher base, this adjustment would be broadly consistent with government commitments at the CEDRE donor conference. The delay in budget adoption prevents the full-year impact of reforms from being felt in 2019. Still, the budget, on paper, is consistent with further semi-permanent fiscal adjustment of 1 ppt of GDP in 2020, alongside the proposed start of EdL (Electricity of Lebanon) reforms.

The main risks to the budget are execution risk, weak growth, inability to contain current spending, social unrest, a delay to the Bdl (Bank of Lebanon)/banks domestic debt scheme, and, further out, a delay to EdL reforms and adoption of the 2020 budget.

Still, the 2019 budget has surprised positively in terms of proposed fiscal consolidation, as per Bank of America-Merrill Lynch. It was approved after an unprecedented 20 Cabinet sessions dedicated to its study and review and is likely to be approved by parliament in about a month. Local press reports suggest French President Macron could visit Beirut soon to launch the CEDRE conference donor coordination and follow-up mechanism.

The 2019 budget targets a fiscal deficit of 7.8% of GDP and pencils in 3 ppt of GDP in fiscal consolidation from the baseline of the annualized 2018 budgetary outturns.

### JPM DOES NOT ANTICIPATE DIFFICULTIES IN FINANCING LEBANON'S FISCAL DEFICIT

According to a recent report by J.P. Morgan, Lebanon's headline growth was revised down to 1% in 2019, from 1.3% previously and down slightly from 1.1% last year, due to fiscal adjustment.

The report added that the external backdrop has improved with the partial stabilization of Syria and Iraq, potentially supporting a recovery in trade, investment, and travel flows in the Levant. Domestic political uncertainty has also eased following the formation of a new cabinet.

As a result, there is now an opportunity to move forward with urgent reforms, supported by Cedre conference pledges amounting to US\$ 11 billion (20% of GDP). JPM has again revised down growth to 1% in 2019, due to greater than expected fiscal adjustment.

Moreover, the Lebanese cabinet finally approved the 2019 budget, targeting to lower the deficit to 7.6% of GDP, from over 11% of GDP last year. The authorities had indicated last year that the proposed fiscal adjustment would be a cut in the deficit by 1% point every year for five years. The budget, which has yet to be approved by parliament, envisages a significantly lower deficit than expected through spending cuts and some revenue raising measures which should slow the rise in public debt provided it is implemented.

However, some of the measures are clearly controversial and are likely to meet opposition. JPM expects partial implementation of the announced measures and projects the budget deficit to remain large at 8.4% of GDP this year, down from 11.4% last year. The bank does not expect electricity tariff hikes this year although plans to raise tariffs starting from 2020 would support sentiment. Transfers from the budget to Electricite du Liban were the equivalent of almost a third of the budget deficit last year.

The report does not anticipate difficulties in financing the fiscal deficit. JPM expects Banque du Liban to continue to play the pivotal role it has played in supporting deficit finance and expects BdL to continue to encourage public sector reforms. The authorities are continuing to pursue unconventional debt strategies as they have done in recent years. In this regard, the authorities announced plans to issue local currency bonds with 1% coupon.

There was a US\$ 500 million Eurobond maturing in April and a US\$ 650 million Eurobond maturing in May. The authorities have indicated that they could tap up to US\$ 2 billion via Eurobond issuance, but delays in the approval of the budget has delayed borrowing plans. JP Morgan expects the current account to record a large deficit at almost 22% of GDP in 2019, about the same as last year, due to the combination of a large merchandise trade deficit and weak service receipts. The trade balance is in large deficit at almost US\$ 16 billion and only partially offset by a services surplus of around US\$ 3 billion. The report believes the large external deficit is due to a combination of the spillovers from the conflict in neighboring Syria and real effective exchange rate appreciation.

Lastly, Lebanon's FX reserves are expected to remain under pressure. BdL FX reserves excluding gold have declined by US\$ 3.5 billion since October to US\$ 31.1 billion in March. In addition, gold holdings amounted to almost US\$ 12 billion. During this period, nonresident deposits have been flat and showing a US\$ 1 billion decline from year-end. While JPM does not expect difficulty with debt service or maintaining the peg in the near term, it expects FX reserves to remain under pressure.

#### **LEBANON'S "CAA1" RATING REFLECTS LIMITED FISCAL AND MONETARY LEVERS TO CONTAIN HIGH DEBT AND INTEREST BURDEN, SAYS MOODY'S**

According to Moody's, Lebanon's "Caa1" rating reflects the government's increasingly limited fiscal and monetary levers to contain or reverse its high debt and interest burden amid deteriorating domestic and external funding conditions.

The ratings' credit strengths include a historically resilient, although weakening, bank deposit base and robust reserves, supporting government funding needs, as per the rating agency. Another positive is a history of full and timely debt repayment despite severe economic and political turmoil. A third key credit strength is comparatively high per capita income.

Lebanon's credit challenges include a large public debt overhang, wide fiscal and current account deficits, and protracted regional political instability, according to Moody's. Lebanon's "Low (-)" institutional strength reflects a weak governance framework, which balances weak fiscal policy effectiveness with a robust monetary policy system and the government's demonstrated willingness to service debt. Although government effectiveness remains subject to a fragile sectarian balance, the annual budget process has resumed in 2017 after a 12-year hiatus.

The Banque du Liban (BdL) has maintained confidence in monetary policy and the US dollar peg through its efficient action as regulator. Through a series of financial operations starting in May 2016, the BdL incentivized commercial banks to park their liquid foreign assets at the BdL instead of at international banks in order to stabilize the economy's net foreign asset position in response to the reduced pace of cross-border inflows that started in 2011.

This centralization of liquidity at the BdL has allowed it to maintain interest rates low and steady by purchasing government debt which is not absorbed by the banking system, although the effectiveness of these operations is subject to diminishing returns. Because of the Central Bank effectiveness in maintaining financial stability, Lebanon's institutional strength score is set at "Low (-)", above the indicative score of "Very Low (+)".

The rating agency's assessment of a "Very Low (-)" score for Lebanon's fiscal strength reflects a very high debt burden at 138.8% of GDP at the end of 2018 (excluding domestic debt holdings by public entities amounting to 11.7% of GDP), and which continues to increase in its central scenario as a result of persistent fiscal deficits and moderate growth. At 45.4% of revenues, the cost of servicing Lebanon's debt is the high, and Moody's projects this ratio to increase further toward 50% in 2023.

## CORPORATE NEWS

### BALANCE SHEET OF FINANCIAL INSTITUTIONS TOTALS US\$ 1,504 MILLION AT END-APRIL 2019

According to the latest statistics issued by the Central Bank of Lebanon, the total balance sheet of financial institutions amounted to US\$ 1,504.2 million at end-April 2019, down by 2.3% from end-2018.

In February 2018, the Banque du Liban has implemented the IFRS 9 accounting standards and therefore, some items have been reclassified. The balance sheet components have been compiled backwards till January 2017.

In details, currency and deposits with Central Banks fell from US\$ 44.6 million at end-2018 to US\$ 39.8 million at end-April 2019.

Claims on resident customers increased by 3.4% from end-2018 to US\$ 698.0 million at end-April 2019. Claims on non-resident customers fell from US\$ 70.0 million at end-2018 to US\$ 62.1 million at end-April 2019.

Claims on resident financial sector fell from US\$ 331.8 million at end-2018 to US\$ 322.8 million at end-April 2019. Claims on non-resident financial sector decreased by 29.1% from end-2018 to US\$ 66.9 million at end-April 2019.

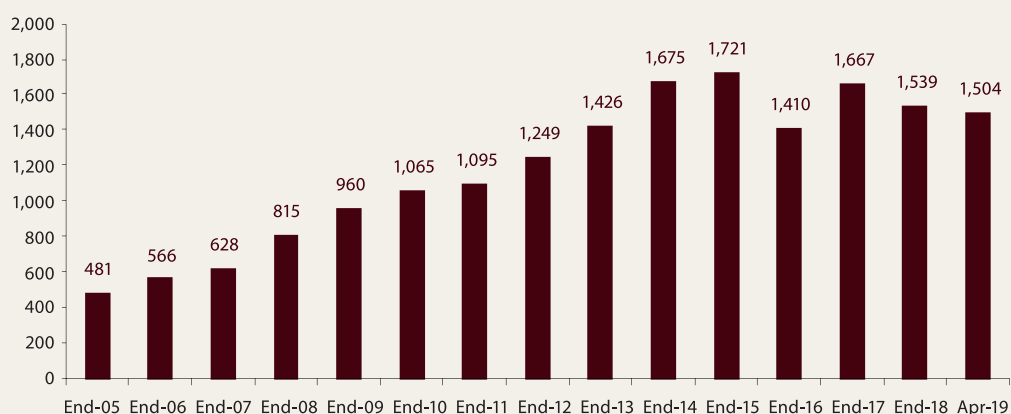
Claims on the public sector stood at US\$ 4.8 million at end-April 2019, down by 0.8% from end-2018.

Securities portfolio registered US\$ 106.7 million at end-April 2019, down by 4.2% from end-2018.

Tangible assets reported US\$ 36.2 million at end-April 2019, up by 3.3% from end-2018. Intangible assets declined from US\$ 155.7 million at end-2018 to US\$ 151.9 million at end-April 2019.

On the liabilities side, resident customer deposits registered US\$ 158.8 million at end-April 2019, up by 0.7% from end-2018. Non-resident customer deposits fell to US\$ 16.6 million at end-April 2019, from US\$ 20.4 million at end-2018.

### BALANCE SHEET OF FINANCIAL INSTITUTIONS (US\$ MILLION)



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

Resident financial sector liabilities stood at US\$ 330.3 million at end-April 2019, declining by 11.4% from end-2018. Non-resident financial sector liabilities decreased from US\$ 143.3 million at end-2018 to US\$ 109.0 million at end-April 2019.

Public sector deposits stood at US\$ 4.0 million at end-April 2019, down from US\$ 4.5 million at end-2018.

Debt securities issued declined from US\$ 149.1 million at end-2018 to US\$ 147.3 million at end-April 2019.

Capital accounts reported US\$ 499.6 million at end-April 2019, up from US\$ 468.3 million at end-2018.

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### **SOLIDERE'S CONSOLIDATED NET LOSSES AT US\$ 115.7 MILLION IN 2018**

Solidere's audited financial statements for 2018 show a loss of US\$ 115.7 million, as compared to the US\$ 116.4 million in losses it posted in 2017.

Total revenues dropped 2.2% to US\$ 66.2 million. This decline is mainly due to a decline in revenues from rented properties from US\$ 59.9 million in 2017 to US\$ 56.9 million in 2018. In 2018, revenues from hospitality reached US\$ 8,656, down from US\$ 239,386 in 2017.

Revenues from land sales rose from US\$ 94,500 in 2017 to US\$ 1.3 million in 2018. Revenues from rendered services increased from US\$ 7.4 million in 2017 to US\$ 8.1 million in 2018.

The company's total cost of revenues declined from US\$ 31.4 million in 2017 to US\$ 29.2 million in 2018. This included a rise in the cost of land sales to stand at US\$ 726,020 last year. Cost of rendered services rose from US\$ 4.0 million in 2017 to US\$ 5.2 million in 2017, while cost of hospitality fell from US\$ 295,317 in 2017 to US\$ 44,038 in 2018.

Furthermore, general and administrative expenses fell by a yearly 13.0% to US\$ 31.4 million in 2018. It is worth noting that the provision for impairment stood at US\$ 35.0 million in 2018, down from US\$ 79.3 million in the previous year.

Total assets edged down from US\$ 2.7 billion at end-2017 to US\$ 2.5 billion at end-2018, including land and projects in progress, valued at US\$ 1.2 billion. Net investment in properties edged down from US\$ 596.0 million at end-2017 to US\$ 584.5 million at end-2018.

Total equity fell from US\$ 1.9 billion at end-2017 to US\$ 1.8 billion at end-2018.

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### **METS ENERGY WILL EXPAND AND RELOCATE TO BCHAMOUN**

Mets Energy, a manufacturer of generators and a power solutions provider, will open a factory in the Bchamoun Industrial Zone in September.

The current 10,000 square meter (sqm) factory will be relocated to a 13,000 sqm facility, to increase production capacity by 50%. The annual production capacity of generators will increase from 4,000 to 6,000 units.

Investment in the project is around US\$ 5 million. The land will be leased.

The firm will relocate to improve production efficiency, and to be able to produce mega-sized units, as the trend is shifting from small-sized units, as per the company's Business Development Manager. The capacity of the generators will go up to 4,000 KVA in single units and power plants up to 200 megawatts. The company exports around 80% of its produce to 42 countries.

Mets Energy has also recently opened three showrooms in Beirut, Ghazieh, and Bednayeil. An additional showroom will open soon in Tripoli.

Mets Energy has branches in 13 countries, including Algeria, Afghanistan, Qatar, Uganda and Pakistan, as well as a factory in Baghdad, Iraq.



## CAPITAL MARKETS

### MONEY MARKET: WEEKLY CONTRACTION IN TOTAL RESIDENT DEPOSITS

The overnight rate remained relatively stable during this two-day week, closing at 7% on Friday, amid continuous net conversions in favor of foreign currencies on the foreign exchange market.

In parallel, total resident banking deposits continued to trace a downward trajectory during the week ending 23rd of May 2019, as per the latest monetary aggregates released by the Central Bank of Lebanon. In details, total resident banking deposits contracted by LP 165 billion week-on-week, mainly driven by a LP 198 billion fall in total LP resident deposits amid a LP 266 billion drop in LP saving deposits and a LP 68 billion rise in LP demand deposits, while foreign currency resident deposits increased by LP 33 billion (the equivalent of US\$ 22 million).

#### INTEREST RATES

	07/06/19	31/05/19	28/12/18	
Overnight rate (official)	3.90%	3.90%	3.90%	↔
7 days rate	4.00%	4.00%	4.00%	↔
1 month rate	4.75%	4.75%	4.75%	↔
45-day CDs	4.90%	4.90%	4.90%	↔
60-day CDs	5.08%	5.08%	5.08%	↔

Source: Bloomberg

### TREASURY BILLS MARKET: NOMINAL SURPLUS OF LP 2,807 BILLION DURING THE FIRST 5M OF 2019

The latest Treasury bills auction results for value date 6th of June 2019 showed that the Central Bank of Lebanon has allowed banks to subscribe in full to the six-month category (offering a yield of 5.85%), the two-year category (offering a coupon of 7.0%) and the ten-year category (offering a coupon of 10.0%).

In parallel, the Treasury bills auction results for value date 30th of May 2019 showed that total subscriptions reached LP 84 billion and were distributed as follows: LP 5 billion in the three-month category (offering a yield of 5.30%), LP 8 billion in the one-year category (offering a yield of 6.50%) and LP 71 billion in the five-year category (offering a coupon of 8.0%). These compare to maturities of LP 79 billion, resulting into a nominal weekly surplus of LP 5 billion.

On a cumulative basis, total subscriptions reached LP 6,809 billion during the first five months of 2019. The ten-year category accounted for 29.2% of the total, followed by the seven-year category (25.3%), the five-year category (17.0%), and the three-year category (10.7%), while the three-month, six-month, one-year and two-year categories accounted for the remaining 17.8%. These compare to total maturities of LP 4,646 billion, resulting into a nominal surplus of LP 2,163 billion during the first five months of 2019.

Within this context, it is worth mentioning that total subscriptions in LP Tbs during the first five months of this year compared to subscriptions of LP 13,226 billion during the same period of 2018, down by circa 49%, as commercial banks placed long-term LP term deposits at BDL to benefit from LP facilities. In parallel, the Central Bank of Lebanon continued to play the role of an intermediary between banks and the sovereign during the first five months of 2019, as reflected by a LP 2,807 billion growth in its LP securities portfolio.

## TREASURY BILLS

	07/06/19	31/05/19	28/12/18	
3-month	5.30%	5.30%	4.44%	↔
6-month	5.85%	5.85%	4.99%	↔
1-year	6.50%	6.50%	5.35%	↔
2-year	7.00%	7.00%	5.84%	↔
3-year	7.50%	7.50%	6.50%	↔
5-year	8.00%	8.00%	6.74%	↔
10-year	10.00%	-	10.00%	
<b>Nom. Subs. (LP billion)</b>		<b>84</b>	<b>98</b>	
Short-term (3&6 mths)		5	4	
Medium-term (1&2 yrs)		8	11	
Long-term (3 yrs)		-	-	
Long-term (5 yrs)		71	83	
<b>Maturities</b>		<b>79</b>	<b>124</b>	
<b>Nom. Surplus/Deficit</b>		<b>5</b>	<b>-26</b>	

Sources: Central Bank of Lebanon, Bloomberg

## FOREIGN EXCHANGE MARKET: BDL'S FOREIGN ASSETS AT US\$ 36.6 BILLION AT END-MAY 2019

Activity remained in favor of foreign currencies during this two-day week. Some market players showed demand for US dollar for commercial reasons, while some others sought to convert their LP holdings into FC holdings.

In parallel, the Central Bank's latest bi-monthly balance sheet ending 31st of May 2019 showed that BDL's foreign assets contracted by US\$ 727 million during the second half of the month to reach US\$ 36.6 billion at end-May. This is mainly explained by BDL's payment of US\$ 1,135 million representing maturing principal and coupons on the Lebanese Eurobonds from the 16th till the 31st of May 2019. Accordingly, the Central Bank of Lebanon's foreign assets accumulated contractions of US\$ 3.1 billion during the first five months of 2019 (including maturing principal and coupons on the Lebanese Eurobonds of US\$ 2.1 billion, as per BDL).

## EXCHANGE RATES

	07/06/19	31/05/19	28/12/18	
LP/US\$	1,507.50	1,507.50	1,507.50	↔
LP/£	1,917.24	1,901.71	1,905.78	↓
LP/¥	13.89	13.86	13.66	↓
LP/SF	1,516.75	1,499.55	1,529.68	↓
LP/Can\$	1,128.62	1,113.78	1,107.48	↓
LP/Euro	1,698.35	1,680.56	1,724.73	↓

Source: Bank Audi's Group Research Department

## STOCK MARKET: EXTENDED SHY EQUITY PRICE DECLINES DURING THIS TWO-DAY WEEK

The Beirut Stock Exchange continued to see shy price retreats during this week that was shortened to two working days due to Fitr holidays, as reflected by a 0.7% decline in the price index to close at 74.24. Six out of ten traded stocks registered price falls, while one stock posted price gains and three stocks saw no price change week-on-week.

As to Solidere shares, Solidere "A" share price shed 2.5% to US\$ 4.98. Solidere "B" share price declined by 1.2% to US\$ 5.02. Regarding banking stocks, BLOM's "listed" share price retreated by 0.6% to US\$ 8.50. Bank Audi's GDR price fell by 4.8% to US\$ 4.0. BEMO Preferred shares 2013 registered price decreases of 1.1% to reach US\$ 92.0. In contrast, Bank of Beirut Preferred shares "H" posted price increases of 0.4% to reach US\$ 25.0. Amongst industrials, Holcim Liban's share price dropped by 2.1% to US\$ 14.0.

As to trading volumes, the total turnover was restricted to US\$ 966 thousand during this two-day week as compared to US\$ 1.2 million in the previous five-day week. However, the average daily trading value increased from US\$ 242 thousand last week to US\$ 483 thousand this week, which resulted into a 99.3% surge in the trading volume index to close at 20.71.

#### AUDI INDICES FOR BSE

22/1/96=100	07/06/19	31/05/19	28/12/18	
Market Cap. Index	340.18	342.53	384.30	↓
Trading Vol. Index	20.71	10.39	227.09	↑
Price Index	74.24	74.76	83.87	↓
Change %	-0.69%	-0.86%	-0.70%	↓
	07/06/19	31/05/19	28/12/18	
Market Cap. \$m	8,070	8,126	9,117	↓
No. of shares traded (Exc. BT)	111,473	176,372	4,241,140	↓
Value Traded \$000 (Exc. BT)	966	1,212	21,393	↓
o.w. : Solidere	223	459	1,208	↓
Banks	725	741	20,107	↓
Others	18	12	78	↑

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

#### BOND MARKET: WEEKLY BOND PRICE GAINS ACROSS THE BOARD ON US FED RATE CUTS BETS

Lebanon's fixed income market posted price gains week-on-week, mainly supported by net international buying operations, while also tracking increases in emerging debt markets (as reflected by a 3.7% contraction in JP Morgan EMBIG Z-spread week-on-week) on speculation about an interest rate cut by the US Federal Reserve this year after the latter said that it is prepared to act to sustain economic expansion if the US-China trade war weakened the US economy.

That being said, Lebanese sovereigns saw price rises across the board this week, with papers maturing between 2019 and 2037 registering price gains of 0.13 pt to 0.88 pt. This was reflected by a 9 bps decline in the weighted average bond yield, moving from 10.41% at the end of last week to 10.32% at the end of this week. Also, the weighted average bid Z-spread reached 868 bps this week as compared to 872 bps at the end of last week. As to the cost of insuring debt, Lebanon's five-year CDS spreads reached 870-900 bps at the end of this week as compared to 860-890 bps at the end of last week.

#### EUROBONDS INDICATORS

	07/06/19	31/05/19	28/12/18	
Total tradable size \$m	31,064	31,064	32,214	↔
o.w.: Sovereign bonds	29,814	29,814	30,964	↔
Average Yield	10.32%	10.41%	9.95%	↓
Z-Spread (bid in bps)	868	872	764	↓
Average Life	7.66	7.70	7.83	↓
Yield on US 5-year note	1.88%	1.97%	2.61%	↓

Source: Bank Audi's Group Research Department

## INTERNATIONAL MARKET INDICATORS

	07-Jun-19	31-May-19	31-Dec-18	Weekly change	Year-to-date change
<b>EXCHANGE RATES</b>					
YEN/\$	108.19	108.96	109.61	-0.7%	-1.3%
\$/£	1.274	1.261	1.275	1.0%	-0.1%
\$/Euro	1.133	1.113	1.147	1.8%	-1.2%
<b>STOCK INDICES</b>					
Dow Jones Industrial Average	25,983.94	24,815.04	23,327.46	4.7%	11.4%
S&P 500	2,873.34	2,752.06	2,506.85	4.4%	14.6%
NASDAQ	7,742.10	7,453.15	6,635.28	3.9%	16.7%
CAC 40	5,364.05	5,207.63	4,730.69	3.0%	13.4%
Xetra Dax	12,045.38	11,726.84	10,558.96	2.7%	14.1%
FT-SE 100	7,331.94	7,161.71	6,728.13	2.4%	9.0%
NIKKEI 225	20,884.71	20,601.19	20,014.77	1.4%	4.3%
<b>COMMODITIES (in US\$)</b>					
GOLD OUNCE	1,340.86	1,292.19	1,282.49	3.8%	4.6%
SILVER OUNCE	15.02	14.51	15.50	3.5%	-3.1%
BRENT CRUDE (per barrel)	63.29	66.07	53.80	-4.2%	17.6%
<b>LEADING INTEREST RATES (%)</b>					
1-month Libor	2.41	2.43	2.50	-0.02	-0.09
US Prime Rate	5.50	5.50	5.50	0.00	0.00
US Discount Rate	3.00	3.00	3.00	0.00	0.00
US 10-year Bond	2.08	2.12	2.68	-0.04	-0.60

Sources: Bloomberg, Bank Audi's Group Research Department

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