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## The LEBANON WEEKLY MONITOR

### Economy

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Following a relative improvement in public finances in 2017, the first half of 2018 reported a noticeable rise in fiscal deficit within the context of a double-digit rise in public expenditures mainly driven by the effects of the recently ratified public sector wage scale along with a net contraction in public revenues tied to the sluggishness of the domestic economy.

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#### p.9 EUROBOND PRICES ON THE DECLINE AMID CABINET GRIDLOCK

Amid a prolonged stalemate in cabinet formation and warnings about the negative impact of the cabinet gridlock on the domestic economy, Lebanon's capital markets witnessed this week extended net international selling on the Eurobond market, while the equity market posted shy price gains, and the FX market saw a relatively balanced activity. In details, international institutional investors were net sellers, especially on the longer-end of the curve. This resulted into a 23 bps expansion in the weighted average yield to reach 9.69%. At the level of the equity market, the BSE price index rose by 0.4% week-on-week, mainly helped by some demand for banking shares in a market that suffers from a lack of liquidity and efficiency. The BSE total turnover contracted by 71% week-on-week to reach US\$ 11.5 million, yet still above the US\$ 6.9 million average weekly trading value registered since the beginning of 2018. On the FX market, activity was relatively balanced, with the LP/US\$ interbank rate hovering around LP 1,514-LP 1,514.50.

### LEBANON MARKETS: WEEK OF NOVEMBER 05 - NOVEMBER 11, 2018

|                                 |   |                   |   |
|---------------------------------|---|-------------------|---|
| Money Market                    | ↑ | BSE Equity Market | ↑ |
| Certificates of Deposits Market | ↔ | GDR Market        | ↑ |
| LP Tbs Market                   | ↓ | Eurobond Market   | ↓ |
| LP Exchange Market              | ↔ | CDS Market        | ↓ |

## ECONOMY

### A SURGE IN PUBLIC FINANCE DEFICIT OVER THE FIRST HALF-YEAR

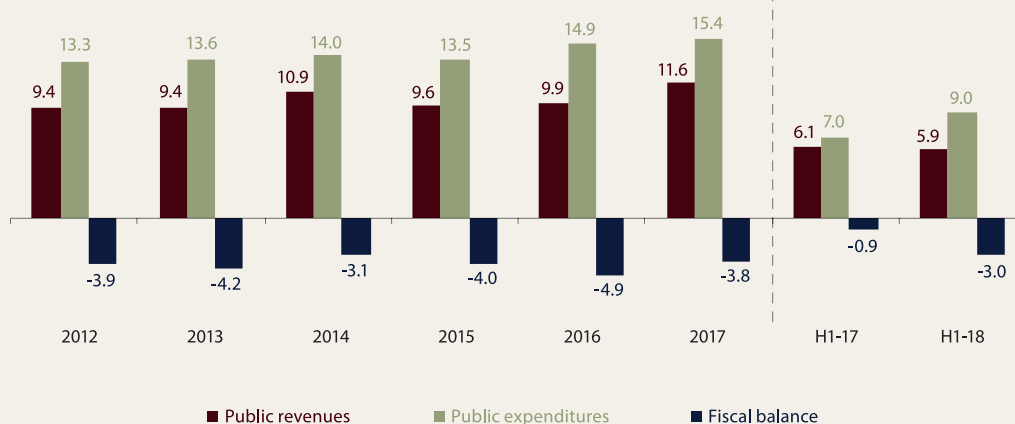
Following a relative improvement in public finances in 2017, the first half of 2018 reported a noticeable rise in fiscal deficit within the context of a double-digit rise in public expenditures mainly driven by the effects of the recently ratified public sector wage scale along with a net contraction in public revenues tied to the sluggishness of the domestic economy. Lebanon's public finance deficit rose from US\$ 0.9 billion over the first six months of 2017 to US\$ 3 billion over the same period of 2018. While the primary balance reported a surplus of 23.4% of expenditures in the first half of 2017, it reported a deficit of 1.7% of expenditures in the 2018 corresponding period.

The 28.8% rise in public spending is tied to a 25.7% increase in budget expenditures along with a 66.7% rise in Treasury expenses. The increase in the former, which represents 90% of public spending, is driven by a 33.7% rise in general expenditures, of which a 32.8% rise in EDL transfers, and a 13.9% increase in debt service. It is worth mentioning that while interest on local currency debt rose by 5.5%, the interest on foreign currency debt surged by 29.7% year-on-year.

At the revenue level, the 2% contraction in revenues is tied to a 5.7% drop in budget revenues, while Treasury revenues surged by 69.3%. Tax revenues actually declined by 3.2% while non-tax revenues decreased by 16.9%. The breakdown of tax revenues by category suggests that income taxes decreased by 10.1% over the first half-year, property taxes declined by 16.9%, while internal taxes on goods and services increased by 4.6%, taxes on global trade rose by 6.1% and other taxes surged by 24.4%. The breakdown of non-tax revenues by category suggests that revenues from public institutions contracted by 33.2%, penalties dropped by 3.2%, while administrative fees increased by 5.3% and other non-tax revenues rose by 1.5% year-on-year.

Finally, fiscal softlanding represents the most important challenge today to ensure the continuity of financial and monetary resilience over time. Public finance imbalances is the main vulnerability of the Lebanese economy of nowadays, with public deficit to GDP at 10% this year, though still below previous peaks recorded a decade ago. Solutions yet still do exist to enhance revenues and rationalize spending and thus curb deficit ratios and contain debt growth, bearing in mind that they require firm decisions on behalf of politicians, policy makers and authorities at large.

#### LEBANON'S FISCAL ACCOUNTS (US\$ BILLION)



Source: Ministry of Finance

## TOTAL NUMBER OF PASSENGERS AT THE AIRPORT UP BY A YEARLY 7.4% IN FIRST TEN MONTHS OF 2018

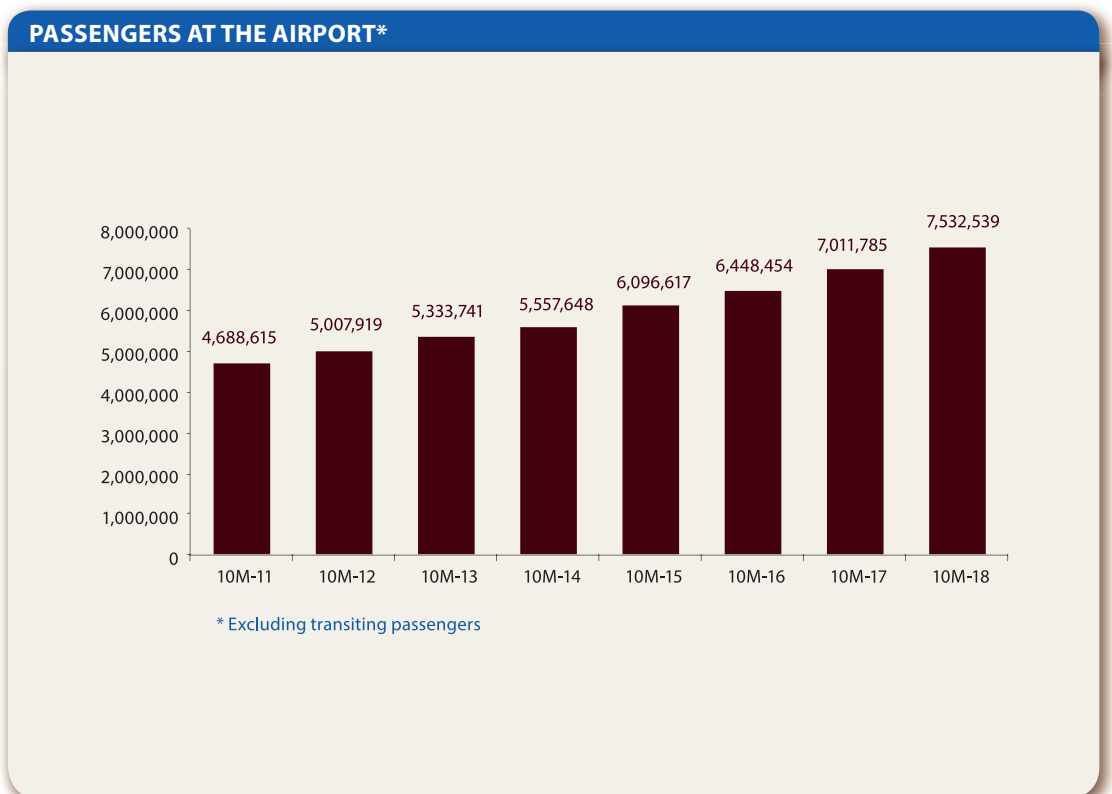
Figures released by the Rafic Hariri International Airport revealed that the total number of passengers recorded a yearly 7.4% increase in the first ten months of 2018. The number of aircraft rose by 3.9% year-on-year in the aforementioned period. In parallel, the total freight handled by the airport went up by 1.5% year-on-year during the same period.

A detailed look at the activity shows that the number of incoming passengers rose by a yearly 8.0% and that of departing passengers by 6.9% to reach 3,762,585 and 3,769,954 respectively in the first ten months of 2018.

The number of transiting passengers declined by 10.5% year-on-year to attain 3,853 in the first ten months of 2018. When including the latter mentioned category, the total number of passengers using the airport attained 7,536,392, i.e. 7.4% higher than the level seen in the first ten months of 2017.

Looking at the aircraft activity, landings and take-offs rose by an annual 3.9% each, with the former amounting to 31,218 planes and the latter reporting 31,217 in the first ten months of 2018.

Regarding the freight movement within the airport, a total of 47,043 thousand tons were imported and unloaded during the first ten months of 2018, while 33,558 thousand tons were loaded and exported. The first mentioned activity posted an increase of 3.0% while the latter posted a 0.6% fall on a yearly basis in the first ten months of 2018.



Sources: Rafic Hariri International Airport, Bank Audi's Group Research Department

## GROSS PUBLIC DEBT AT US\$ 83.8 BILLION AT END-SEPTEMBER 2018

The data published by the Ministry of Finance in Lebanon showed that the country's gross debt reached US\$ 83.8 billion at end-September 2018, up by 5.4% from the level seen at end-2017.

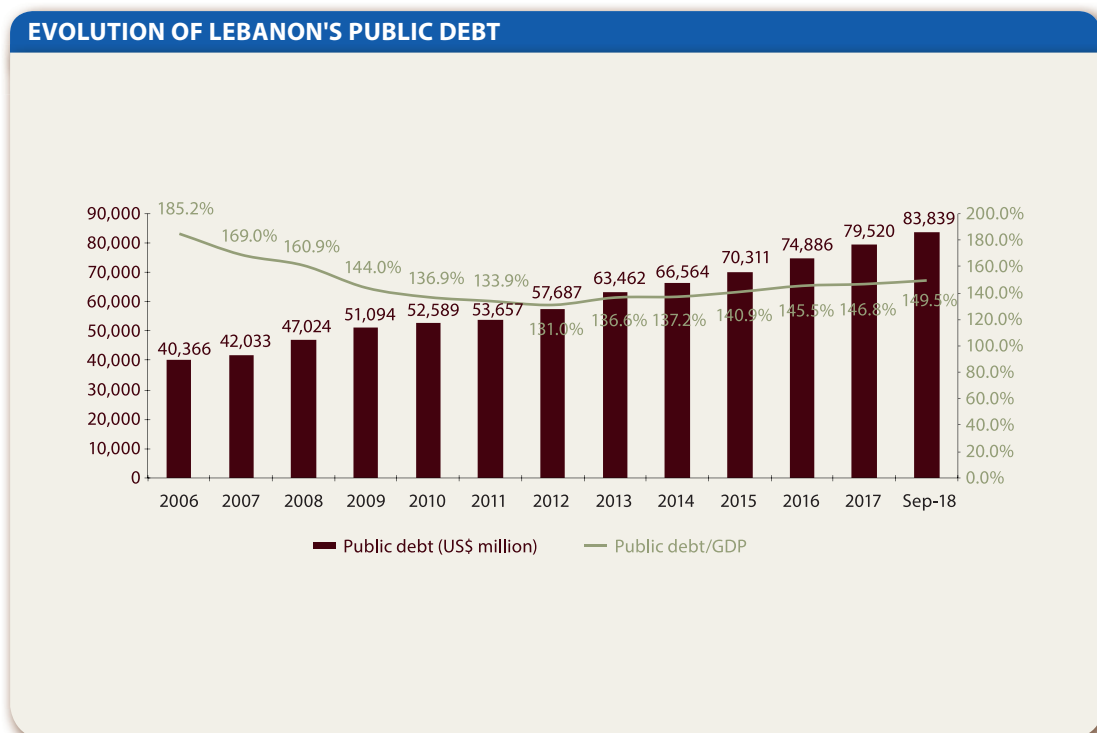
Domestic debt was lower by 1.4% from end-2017 to reach a total of US\$ 48.4 billion at end-September 2018.

Lebanon's foreign debt grew by 16.6% from end-2017 to stand at around US\$ 35.4 billion at end-September 2018.

In this context, the public sector deposits at the Central Bank declined by 0.9% from end-2017 to stand at US\$ 5.8 billion at end-September 2018. The public sector deposits at commercial banks edged up by 1.6% from end-2017 to reach US\$ 4.4 billion at end-September 2018.

As such, net public debt, which excludes the public sector deposits at the Central Bank and commercial banks from overall debt figures, increased by 6.2% from end-2017 to reach a total of US\$ 73.6 billion at end-September 2018. Accordingly, net domestic debt amounted to US\$ 38.2 billion at end-September 2018, down by 1.9% from end-2017.

Public debt to GDP is thus estimated at 149.5% as at end-September 2018, up from 146.8% as at end-December 2017, but still way below its peak of 185% reached in 2006.



Sources: Ministry of Finance, IMF, Bank Audi's Group Research Department

## SURVEYS

### LEBANON'S HOSPITALITY SECTOR SEES SLIM DROP IN OCCUPANCY RATES AND ROOM YIELDS IN 9M 2018, SAYS EY

Lebanon's hospitality sector sees slight decline in occupancy rates and room yields in 9M 2018, says EY.

Ernst & Young issued its latest Hotel Benchmark Survey on the Middle East for the first nine months of 2018 (four and five star hotels), in which it showed that the performance of Lebanon's hospitality sector witnessed a slowdown in occupancy rates and room yields.

As a matter of fact, the occupancy rate of four and five star hotels within the capital reached 63.6% in the first nine months of 2018, against 65.4% in the aforementioned period of 2017.

The occupancy rate within Beirut was the sixth highest among 14 cities included in the survey. It directly surpassed Jeddah (62.6%) and Makkah (62.4%), while Cairo (70.8%) and Madina (69.1%) came directly before Beirut.

Beirut's room rate rose from an average of US\$ 186 in the first nine months of 2017 to US\$ 187 in the corresponding period of 2018, equivalent to a marginal yearly increase of 0.5%.

The city's growth rate ranked 6th out of 14 surveyed cities. The rate of the capital's hotels was the 5th highest in the region. It exceeded that of Riyadh (US\$ 171) and Manama (US\$ 164), while being surpassed by Kuwait (US\$ 190) and Makkah (US\$ 198).

The rooms' yield fell by 2.5% annually to reach US\$ 119 in the first nine months of 2018 compared to US\$ 122 in the same period of 2017. Beirut ranked eighth in terms of variation in the region when assessing this indicator. The room yield in Beirut was the fourth highest, surpassed by Makkah (US\$ 123) and Dubai (US\$ 166), and higher than Ras Al Khaimah (US\$ 111) and Kuwait (US\$ 107).

#### ERNST & YOUNG MIDDLE EAST BENCHMARK SURVEY

|                | Occupancy (%) |             | Average Room Rate (US\$) |            | Room Yield (US\$) |            |
|----------------|---------------|-------------|--------------------------|------------|-------------------|------------|
|                | 9M 2018       | 9M 2017     | 9M 2018                  | 9M 2017    | 9M 2018           | 9M 2017    |
| Abu Dhabi      | 75.8          | 77.3        | 95                       | 100        | 72                | 77         |
| Dubai          | 73.8          | 76.6        | 225                      | 214        | 166               | 164        |
| Ras al Khaimah | 70.8          | 72.6        | 157                      | 149        | 111               | 108        |
| Cairo          | 70.8          | 64.8        | 103                      | 96         | 73                | 63         |
| Madina         | 69.1          | 70.8        | 149                      | 161        | 103               | 114        |
| <b>Beirut</b>  | <b>63.6</b>   | <b>65.4</b> | <b>187</b>               | <b>186</b> | <b>119</b>        | <b>122</b> |
| Jeddah         | 62.6          | 63.4        | 298                      | 272        | 187               | 173        |
| Makkah         | 62.4          | 61.3        | 198                      | 211        | 123               | 129        |
| Amman          | 58.5          | 55.0        | 144                      | 148        | 84                | 81         |
| Doha           | 57.6          | 60.9        | 126                      | 149        | 73                | 91         |
| Kuwait         | 56.1          | 57.0        | 190                      | 188        | 107               | 107        |
| Muscat         | 54.0          | 68.7        | 138                      | 157        | 75                | 108        |
| Riyadh         | 53.1          | 51.0        | 171                      | 183        | 91                | 93         |
| Manama         | 50.2          | 50.5        | 164                      | 183        | 82                | 92         |

Sources: Ernst & Young, Bank Audi's Group Research Department

## LEBANON RANKS 3RD IN MENA REGION IN TERMS OF INTERNET FREEDOM, AS PER FREEDOM HOUSE

According to Freedom House's "Freedom on the Net 2018", Lebanon ranked 37th in the world and 3rd in the Middle East and North Africa (MENA) region in terms of internet freedom.

Freedom on the net is a comprehensive study of internet freedom in 65 countries around the globe, covering 87% of the world's internet users. It tracks improvements and declines in internet freedom conditions each year. The countries included in the study are selected to represent diverse geographical regions and regime types.

More than 70 analysts contributed to this year's edition using a 21-question research methodology that addresses internet access, freedom of expression, and privacy issues. In addition to ranking countries by their internet freedom score, the project offers a unique opportunity to identify global trends related to the impact of information and communication technologies on democracy. This report, the eighth in its series, focuses on developments that occurred between June 2017 and May 2018.

Lebanon was among the countries having a "partly free" internet environment, posting it a score of 47 (on a scale of 0 to 100) for the year 2018, down from a score of 46 in 2017. In details, Lebanon scored 13 (on a scale of 0 to 25) in the "Obstacles to Access" component, 12 (on a scale of 0 to 35) in the "Limits on Content" metric, and 22 (on a scale of 0 to 40) in the "Violations of User Rights" parameter.

In the MENA region, Lebanon came in third position, and it was surpassed by Tunisia and Morocco. On the other hand, Lebanon came above that of Jordan and Libya. Globally, Lebanon, which ranked 37th, was surpassed by Indonesia and Sri Lanka. Jordan and Bangladesh ranked below Lebanon.

The report also added that social media users in Lebanon were taken into police custody for criticizing political figures. On a positive note, the report revealed that the State-owned telecom company recently launched a national internet strategy to deploy a fiber-optic network by the year 2020.

On the global stage, Freedom House said that 26 countries out of the 65 countries assessed posted overall declines in 2018, compared to 19 countries that registered net improvements. It is worth noting that the largest score declines took place in Egypt and Sri Lanka.

As for global rankings, Estonia, Iceland, and Canada ranked top of the world rankings in descending order, while Syria, Iran, and China came in at the bottom of the rankings.

In almost half of the countries where internet freedom declined, the reductions were related to elections. Twelve countries suffered from a rise in disinformation, censorship, technical attacks, or arrests of government critics in the lead-up to elections.

## CORPORATE NEWS

### EBRD AND BANK AUDI PARTNER FOR FIRST GREEN FINANCE PROJECT IN LEBANON

With a view to strengthening sustainable energy in Lebanon, the EBRD and Bank Audi are joining forces by providing US\$ 100 million each for green projects. This includes the first loan under the EBRD Green Economy Financing Facility (GEFF) for the country.

The program addresses critical issues for Lebanon's sustainable development, such as diversifying energy supply, reducing the use of limited natural resources such as energy and water, and improving energy efficiency, thus decreasing pollution levels, conserving resources and contributing to a better environment.

Under the GEFF agreement with Bank Audi, the EBRD is providing a US\$ 90 million loan, to be complemented by US\$ 10 million in concessional funding from the TaiwanICDF, for on-lending to private borrowers.

The funds will be used for climate change mitigation and adaptation investments, in line with the EBRD's Green Economy Transition approach, a comprehensive strategy to reduce greenhouse gas emissions and improve energy efficiency.

GEFF Lebanon will be supported by a team of specialized consultants including engineering, environmental, financial and marketing experts, who will offer Bank Audi and its clients direct support and advice throughout the green project lifecycle using best-in-class technologies. The technical assistance package is supported by the EBRD Shareholder Special Fund.

The EBRD Head of Lebanon said this GEFF facility to Bank Audi is the first offered to a commercial bank in Lebanon and the largest ever granted to a single bank in the region. The project demonstrates the EBRD's commitment to creating opportunities in the green economy in Lebanon, and deepens its partnership with Bank Audi.

The Chairman and Group CEO of Bank Audi added that the bank's partnership with the EBRD in the GEFF facility demonstrates the commitment of both institutions to unlocking the Lebanese private sector's access to green finance. The funding will allow businesses and individuals to invest in commercially viable and environmentally sustainable projects, thereby supporting Lebanon's overall transition to a green economy.

To that end, Bank Audi will match the GEFF facility with an additional US\$ 100 million in financing to support green investments, bringing the total green financing package to US\$ 200 million.

Since 2006, through GEFF, the EBRD has provided almost € 4 billion in green financing to more than 130 financial institutions, reaching 120,000 clients in 25 countries. These projects have led to annual reductions in CO2 emissions of almost 7 million tons.

In September 2017, Lebanon joined EBRD's southern and eastern Mediterranean (SEMED) region, which is currently the fastest-growing region of the bank's operations. The region includes Egypt, Jordan, Morocco and Tunisia, where the EBRD has been investing and has engaged in policy reforms since 2012, as well as the West Bank and Gaza since May 2017.

In only six years, the EBRD has invested over € 8 billion in 195 projects across the SEMED region including five projects in Lebanon. The EBRD also became a shareholder in Bank Audi in March 2018, with a 2.5% participation in the latter's common equity.

**BANK OF BEIRUT'S NET PROFITS DOWN 1% TO US\$ 146.9 MILLION IN FIRST NINE MONTHS OF 2018**

Bank of Beirut published its quarterly financials showing a slight decline in net profits on a yearly basis (-1.1%) to reach US\$ 146.9 million in the first nine months of 2018.

In details, net interest income rose by 4.9% year-on-year to attain US\$ 225.6 million in the first nine months of this year.

Net fees and commission income progressed by 9.4% to reach US\$ 69.9 million. As a result, net operating income grew by 3.6% to amount to US\$ 342.4 million over this year's covered period.

In parallel, total operating expenses increased by 5.0% year-on-year to reach US\$ 167.6 million in the first nine months of 2018. Out of the latter, staff expenses edged up by 7.8% to US\$ 94.8 million while administrative and other operating expenses declined by 6.7% to US\$ 57.8 million in the first nine months.

On the balance sheet side, Bank of Beirut's total assets rose by 5.9% from September 2017 to US\$ 18.5 billion at end-September 2018. Net loans jumped by 8.2% year-on-year to amount to US\$ 5.5 billion at end-September 2018.

On the liabilities side of the balance sheet, customer deposits reached US\$ 12.9 billion at end-September 2018, up by 1.5% from US\$ 12.7 billion at end-September 2017. Shareholders' equity almost stood still to attain US\$ 2.4 billion at end-September 2018.

**BANQUE BEMO'S DEPOSITS UP 1.3% IN FIRST NINE MONTHS OF 2018 TO REACH US\$ 1.4 BILLION**

Banque BEMO published its financial results showing a 16.3% rise in total assets since the end of last year to reach US\$ 2.1 billion at end-September 2018.

Net loans contracted by 2.2% over the covered period to attain US\$ 745.5 million at end-September 2018. The cash, compulsory reserves and Central Banks item rose by 1.7x to US\$ 718.6 million at end-September 2018.

Customer deposits retreated by 1.3% since end-December 2017 to reach US\$ 1.4 billion at end-September 2018 and total equity declined by 1.7% to US\$ 171.4 million at end-September 2018.

At the level of the income statement, net profits of Banque BEMO reached US\$ 13.3 million in the first nine months of this year, practically unchanged over the corresponding period of 2017.

Net interest income rose by 36.2% on a yearly basis, moving from US\$ 19.3 million in the first nine months of 2017 to US\$ 26.3 million in the covered period of this year.

Net fees and commission income edged up by 7.4% year-on-year, moving from US\$ 4.3 million in the first nine months of last year to US\$ 4.7 million in this year's similar period.

On the other hand, Banque BEMO saw its net interest and other gain (loss) on fair value through profit or loss portfolio category swing from +US\$ 5.0 million to -US\$ 0.6 million over the covered period, and its other operating income decline by 28.8% to US\$ 4.6 million in the first nine months of 2018.

Consequently, net operating income shrank by 0.5% to US\$ 35.0 million. In parallel, total expenses retreated by 1.8% to reach US\$ 19.9 million mostly due to a 1.1% decline in staff costs on a yearly basis to attain US\$ 11.8 million in this year's first nine months.



## CAPITAL MARKETS

### MONEY MARKET: OVERNIGHT RATE AT 8% ON REDUCED LP LIQUIDITY

The overnight rate rose from 5% at the end of last week to 8% at the end of this week, mainly due to technical reasons related to CNSS deposits and conversions in favor of foreign currencies on the foreign exchange market. Meanwhile, no subscriptions were made in shorter-term 45-day and 60-day Certificates of Deposits.

Total resident banking deposits contracted by LP 240 billion during the week ending 25th of October 2018, as per the latest monetary aggregates released by the Central Bank of Lebanon. This was mainly driven by a LP 280 billion contraction in total LP resident deposits amid a LP 170 billion fall in LP demand deposits and a LP 110 billion decline in LP saving deposits, while foreign currency deposits rose by LP 40 billion (the equivalent of US\$ 27 million). These weekly variations compare to an average weekly decrease of LP 15 billion for total LP deposits and an average weekly rise of US\$ 64 million for foreign currency deposits since the beginning of the year 2018. Within this context, the total money supply in its largest sense (M4) contracted by LP 419 billion over the covered week, amid a LP 161 billion decrease in the currency in circulation and an LP 18 billion retreat in the non-banking sector Treasury bills portfolio.

On a cumulative basis, total resident deposits grew by LP 3,219 billion since the beginning of the year 2018, amid a LP 4,123 billion growth in foreign currency deposits (the equivalent of US\$ 2,735 million) and a LP 904 billion contraction in total LP deposits.

### INTEREST RATES

|                           | 09/11/18 | 02/11/18 | 29/12/17 |   |
|---------------------------|----------|----------|----------|---|
| Overnight rate (official) | 3.90%    | 3.90%    | 2.75%    | ↔ |
| 7 days rate               | 4.00%    | 4.00%    | 2.86%    | ↔ |
| 1 month rate              | 4.75%    | 4.75%    | 3.31%    | ↔ |
| 45-day CDs                | 4.90%    | 4.90%    | 3.57%    | ↔ |
| 60-day CDs                | 5.08%    | 5.08%    | 3.85%    | ↔ |

Source: Bloomberg

### TREASURY BILLS MARKET: SHY NOMINAL WEEKLY DEFICIT OF LP 13 BILLION

The latest Treasury bills auction results for value date 8th of November 2018 showed that the Central Bank of Lebanon allowed banks to subscribe in full to the six-month category (offering a yield of 4.99%), to the three-year category (offering a coupon of 6.50%) and to the seven-year category (offering a coupon of 7.08%).

In parallel, the auction results for value date 1st of November 2018 showed that total subscriptions reached LP 136 billion and were allocated as follows: LP 5 billion in the three-month category (offering a yield of 4.44%), LP 56 billion in the one-year category (offering a yield of 5.35%), and LP 75 billion in the five-year category (offering a coupon of 6.74%). In parallel, total maturities reached LP 149 billion, resulting into a weekly nominal deficit of LP 13 billion.

The latest "Lebanese Treasury Securities" report released by the Association of Banks in Lebanon showed that the total outstanding LP Tbs portfolio reached LP 71,762 billion at end-September 2018. The ten-year category captures 24.3% of the total, followed by the five-year category with 24.2%, the seven-year category with 15.2%, the three-year category with 14.5%, the two-year category with 10.2%, while all other categories accounted for the remaining 11.6% of the total.

## TREASURY BILLS

|                                | 09/11/18 | 02/11/18   | 29/12/17   |   |
|--------------------------------|----------|------------|------------|---|
| 3-month                        | 4.44%    | 4.44%      | 4.44%      | ↔ |
| 6-month                        | 4.99%    | 4.99%      | 4.99%      | ↔ |
| 1-year                         | 5.35%    | 5.35%      | 5.35%      | ↔ |
| 2-year                         | 5.84%    | 5.84%      | 5.84%      | ↔ |
| 3-year                         | 6.50%    | 6.50%      | 6.50%      | ↔ |
| 5-year                         | 6.74%    | 6.74%      | 6.74%      | ↔ |
| 7-year                         | 7.08%    | -          | 7.08%      | ↔ |
| <b>Nom. Subs. (LP billion)</b> |          | <b>136</b> | <b>225</b> |   |
| Short-term (3&6 mths)          |          | 5          | 20         |   |
| Medium-term (1&2 yrs)          |          | 56         | 105        |   |
| Long-term (3 yrs)              |          | -          | -          |   |
| Long-term (5 yrs)              |          | 75         | 100        |   |
| <b>Maturities</b>              |          | <b>149</b> | <b>197</b> |   |
| <b>Nom. Surplus/Deficit</b>    |          | <b>-13</b> | <b>28</b>  |   |

Sources: Central Bank of Lebanon, Bloomberg

## FOREIGN EXCHANGE MARKET: FX ACTIVITY RELATIVELY BALANCED

Activity on the foreign exchange market was relatively balanced this week. Some market players continued to convert their foreign currency holdings into LP holdings in order to benefit from attractive LP rates on some LP saving products offered by commercial banks, while the commercial demand for US dollar persisted along with some LP-to-FC conversions.

Within this context, the Central Bank governor reiterated that BDL would continue to maintain monetary stability, calling for a faster progress in political reconciliation. It is worth mentioning that the demand for foreign currencies occurs in a period where the defense lines in Lebanon are at one of their most solid levels, with the foreign exchange reserves at the Central Bank reaching US\$ 43.2 billion, the equivalent of 82% of the LP money supply.

## EXCHANGE RATES

|          | 09/11/18 | 02/11/18 | 29/12/17 |   |
|----------|----------|----------|----------|---|
| LP/US\$  | 1,507.50 | 1,507.50 | 1,507.50 | ↔ |
| LP/£     | 1,960.65 | 1,964.12 | 2,035.58 | ↑ |
| LP/¥     | 13.24    | 13.37    | 13.39    | ↑ |
| LP/SF    | 1,495.24 | 1,508.25 | 1,545.04 | ↑ |
| LP/Can\$ | 1,142.31 | 1,154.20 | 1,202.34 | ↑ |
| LP/Euro  | 1,709.05 | 1,724.13 | 1,806.59 | ↑ |

Source: Bank Audi's Group Research Department

## STOCK MARKET: SHY WEEKLY PRICE GAINS ON THE BSE, SUPPORTED BY BANKING STOCKS

The Beirut Stock Exchange registered shy price gains this week, as reflected by 0.4% rise in the price index, mainly supported by price increases in Bank Audi "listed" and GDRs. Three out of 11 traded stocks posted price rises, while five stocks recorded price falls and three stocks saw no price change week-on-week. Bank Audi GDRs led the advance, posting a 5.2% surge in prices to reach US\$ 5.25, followed by Bank Audi's "listed" shares with +2.5% to US\$ 4.90, and Holcim Liban's shares with +0.6% to US\$ 16.60. As to losers, Solidere "B" shares led the fall, registering a 2.8% decline in prices to reach US\$ 6.54, followed

by Solidere "A" shares with -1.9% to US\$ 6.66, Byblos "listed" shares with -1.4% to US\$ 1.40, and Bank Audi Preferred "H" with -0.6% to US\$ 87.0, and BLOM's "listed" shares with -0.2% to US\$ 9.25.

At the level of trading volumes, the BSE total turnover dropped by 71.3% week-on-week to reach US\$ 11.5 million. This compared to an average weekly trading value of US\$ 6.9 million since the beginning of the year 2018. Industrial shares captured 63.0% of activity this week, followed by the banking shares with 30.3%, and Solidere shares with 6.7%.

The weekly performance of the domestic stock exchange compares to decreases in prices in broader regional stock exchanges (-0.6% as per the S&P Pan-Arab Composite Index) and retreats in prices across emerging markets (-1.7% as per the S&P Emerging Frontier Super Composite Index).

#### AUDI INDICES FOR BSE

| 22/1/96=100                    | 09/11/18 | 02/11/18  | 29/12/17 |   |
|--------------------------------|----------|-----------|----------|---|
| Market Cap. Index              | 387.23   | 385.73    | 445.80   | ↑ |
| Trading Vol. Index             | 97.86    | 341.33    | 64.70    | ↓ |
| Price Index                    | 84.51    | 84.18     | 98.20    | ↑ |
| Change %                       | 0.39%    | -0.15%    | 0.35%    | ↑ |
|                                | 09/11/18 | 02/11/18  | 29/12/17 |   |
| Market Cap. \$m                | 9,187    | 9,151     | 10,576   | ↑ |
| No. of shares traded (Exc. BT) | 951,407  | 7,926,454 | 626,565  | ↓ |
| Value Traded \$000 (Exc. BT)   | 11,535   | 40,231    | 6,187    | ↓ |
| o.w. : Solidere                | 777      | 1,049     | 527      | ↓ |
| Banks                          | 3,494    | 39,103    | 5,603    | ↓ |
| Others                         | 7,263    | 79        | 57       | ↑ |

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

#### BOND MARKET: LEBANESE BOND PRICES ON THE DECLINE AMID CABINET UNCERTAINTIES

Amid lingering cabinet uncertainties, international institutional investors were net sellers this week for medium-term to longer-term Lebanese Eurobonds, in relatively small volumes, amid a lack of domestic bid. This triggered a 23 bps expansion in the weighted average yield, moving from 9.46% last week to 9.69% this week. Also, the weighted average bid Z-spread expanded by 7 bps week-on-week to reach 712 bps. As to the cost of insuring debt, Lebanon's five-year CDS spreads, which measures the market perception for sovereigns risks, widened from 675-695 bps last week to 685-705 bps this week.

Downward prices pressures on the Eurobond market came along calls from the monetary authorities to find a breakthrough in cabinet formation deadlock, as the formation of a new government that carries out reforms would increase market confidence and improve the risk profile, according to the Central Bank Governor.

#### EUROBONDS INDICATORS

|                         | 09/11/18 | 02/11/18 | 29/12/17 |   |
|-------------------------|----------|----------|----------|---|
| Total tradable size \$m | 33,744   | 33,748   | 27,148   | ↓ |
| o.w.: Sovereign bonds   | 32,494   | 32,498   | 26,123   | ↓ |
| Average Yield           | 9.69%    | 9.46%    | 6.54%    | ↑ |
| Z-Spread (bid in bps)   | 712      | 705      | 464      | ↑ |
| Average Life            | 7.58     | 7.60     | 6.70     | ↓ |
| Yield on US 5-year note | 3.07%    | 3.00%    | 2.22%    | ↑ |

Source: Bank Audi's Group Research Department

## INTERNATIONAL MARKET INDICATORS

|                                   | 09-Nov-18 | 02-Nov-18 | 29-Dec-17 | Weekly change | Year-to-date change |
|-----------------------------------|-----------|-----------|-----------|---------------|---------------------|
| <b>EXCHANGE RATES</b>             |           |           |           |               |                     |
| YEN/\$                            | 113.79    | 113.20    | 112.69    | 0.5%          | 1.0%                |
| \$/£                              | 1.297     | 1.297     | 1.351     | 0.0%          | -4.0%               |
| \$/Euro                           | 1.134     | 1.139     | 1.201     | -0.5%         | -5.6%               |
| <b>STOCK INDICES</b>              |           |           |           |               |                     |
| Dow Jones Industrial Average      | 25,989.30 | 25,270.83 | 24,719.22 | 2.8%          | 5.1%                |
| S&P 500                           | 2,781.01  | 2,723.06  | 2,673.61  | 2.1%          | 4.0%                |
| NASDAQ                            | 7,406.90  | 7,356.99  | 6,903.39  | 0.7%          | 7.3%                |
| CAC 40                            | 5,106.75  | 5,102.13  | 5,312.56  | 0.1%          | -3.9%               |
| Xetra Dax                         | 11,529.16 | 11,518.99 | 12,917.64 | 0.1%          | -10.7%              |
| FT-SE 100                         | 7,105.34  | 7,094.12  | 7,687.77  | 0.2%          | -7.6%               |
| NIKKEI 225                        | 22,250.25 | 22,243.66 | 22,764.94 | 0.0%          | -2.3%               |
| <b>COMMODITIES (in US\$)</b>      |           |           |           |               |                     |
| GOLD OUNCE                        | 1,209.65  | 1,232.89  | 1,302.80  | -1.9%         | -7.1%               |
| SILVER OUNCE                      | 14.16     | 14.71     | 16.94     | -3.8%         | -16.4%              |
| BRENT CRUDE (per barrel)          | 70.18     | 72.83     | 66.09     | -3.6%         | 6.2%                |
| <b>LEADING INTEREST RATES (%)</b> |           |           |           |               |                     |
| 1-month Libor                     | 2.32      | 2.32      | 1.56      | 0.00          | 0.76                |
| US Prime Rate                     | 5.25      | 5.25      | 4.50      | 0.00          | 0.75                |
| US Discount Rate                  | 2.75      | 2.75      | 2.00      | 0.00          | 0.75                |
| US 10-year Bond                   | 3.18      | 3.21      | 2.41      | -0.03         | 0.77                |

Sources: Bloomberg, Bank Audi's Group Research Department

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