CONTACTS

Treasury & Capital Markets

Bechara Serhal
(961-1) 977421
bechara.serhal@bankaudi.com.lb

Nadine Akkawi
(961-1) 977401
nadine.akkawi@bankaudi.com.lb

Private Banking

Toufic Aouad
(961-1) 954922
toufic.aouad@bankaudipb.com

Corporate Banking

Khalil Debs
(961-1) 977229
khalil.debs@bankaudi.com.lb

RESEARCH

Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Jamil Naayem
(961-1) 977406
jamil.naayem@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Fadi Kanso
(961-1) 977470
fadi.kanso@bankaudi.com.lb

Gerard Arabian
(961-1) 964047
gerard.arabian@bankaudi.com.lb

Farah Nahlawi
(961-1) 959747
farah.nahlawi@bankaudi.com.lb

Nivine Turyaki
(961-1) 959615
nivine.turyaki@bankaudi.com.lb

The MENA WEEKLY MONITOR

Economy

p.2 IIF SAYS SUCCESSFUL FX RATE UNIFICATION IN SELECT MENA COUNTRIES HINGES ON IMPLEMENTATION OF COMPREHENSIVE REFORMS

In a recent note, the IIF examined parallel exchange rates in the MENA region, which have emerged in several countries. Successful unification needs to be accompanied by a comprehensive reform program.

Also in this issue

p.2 S&P revises outlook on Kuwait to “negative” from “stable”
p.3 CI affirms the Long-Term Foreign Currency Rating (LT FCR) and Long-Term Local Currency Rating (LT LCR) of UAE at “AA-”
p.4 EIB approves € 1.9 billion for Egypt to finance projects in transport and to SMEs sector amid the COVID-19 crisis

Surveys

p.5 ABU DHABI TOPS MIDDLE EAST CITIES IN OCCUPANCY RATES IN 5M 2020

Ernst & Young issued its latest Hotel Benchmark Survey on the Middle East for the first five months of 2020 (four and five star hotels), according to which occupancy rates decreased in all fourteen cities.

Also in this issue

p.6 MENA economies to see deep recessions in H2 2020, as per Mitsubishi UFJ Financial Group

Corporate News

p.7 SAUDI'S QIC AWARDS MAJOR ROAD & BRIDGE CONTRACTS TO SAJCO

Saudi Arabia-based Qiddiya Investment Company (QIC) has awarded a three-year major stormwater drainage, roads and bridges contract to Saudi firm Shibh Al Jazira Contracting Company (Sajco).

Also in this issue

p.7 Taqa's unit awarded US$ 246 million recycled water distribution projects
p.7 KCPC wins Kuwait Sabah Al Ahmad City project work
p.7 TechnipFMC signs EPC contract with ANOPC
p.8 Kuwait's Kamco Investment buys US$ 31.5 million office property in UK
p.8 TRSDC awards Red Sea airport project work contract
p.8 SirajPower enters in long-term debt financing deal with Apicorp

Markets In Brief

p.9 REGIONAL EQUITIES DOWN, TWO-WAY FLOWS IN BOND MARKETS

MENA equity markets shifted to a negative territory this week, as reflected by the 0.5% decline in the S&P Pan Arab Composite index, mainly on reduced sentiment after the IMF cut its economic forecast for the region in 2020 due to lower oil prices and the Coronavirus crisis, and dragged by some unfavorable market-specific and company-specific factors. MENA fixed income markets continued to see mixed price movements this week. Some regional debt papers traced an upward trajectory, as escalating US-China tensions and a recent sharp rise in Coronavirus cases around the world fueled concerns over the pace of global economic recovery, spurring demand for safety. Some other regional papers saw price declines on hopes of a potential breakthrough in Coronavirus vaccine.

MENA MARKETS: WEEK OF JULY 12 - JULY 18, 2020

Stock market weekly trend	↓	Bond market weekly trend	↑
Weekly stock price performance	-0.5%	Weekly Z-spread based bond index	-1.0%
Stock market year-to-date trend	↓	Bond market year-to-date trend	↓
YTD stock price performance	-15.2%	YTD Z-spread based bond index	+48.3%

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb

ECONOMY

IIF SAYS SUCCESSFUL FX RATE UNIFICATION IN SELECT MENA COUNTRIES HINGES ON IMPLEMENTATION OF COMPREHENSIVE REFORMS

In a recently released note, the Institute of International Finance (IIF) examined currencies in the MENA region with large secondary market discounts. The biggest secondary market discounts are in Lebanon, Syria, Iran, and Sudan. The emergence of parallel exchange rates in these countries, which have depreciated rapidly vis-à-vis official rates, mainly reflects decades of economic mismanagement and rampant public corruption, as per the IIF note. International sanctions have also widened the spread between official and market rates.

The parallel market premium is an important indicator of inconsistency between macroeconomic policy and the foreign trade and exchange rate regime, said the IIF. In addition to the efficiency costs associated with multiple exchange rate regimes, a high and persistent parallel market premium can undermine the allocational role of the real exchange rate in the economy by exposing the credibility problem of macroeconomic policy, as per the same source.

A unified market-clearing exchange rate is critical for restoring macro stability and strengthening investment and growth. It bolsters efficiency and transparency, eliminates the distortions associated with multiple currency practices, and minimizes rent-seeking activities that increase risks of corruption. Flexible exchange rate regime also supports fiscal consolidation by boosting import-related revenues, added the IIF in its recent note.

The IIF argued that successful unification hinges on the implementation of comprehensive reforms. It is critical to move to a flexible exchange rate system to eliminate multiple currency practices and associated distortions, reduce rent seeking, and boost fiscal revenues. In Latin America and Sub-Saharan Africa several countries in the 1980s and 1990s abandoned multiple exchange rates that were no longer sustainable in a macroeconomic crisis.

However, floating the official exchange rate by itself is only one step toward solving macroeconomic imbalances, according to the IIF which added that accompanying fiscal and structural reforms are crucial. Fiscal reform is often a prerequisite to unify dual exchange rates. The normal course of action for Lebanon and Sudan, particularly, would be to work closely with the IMF to come up with an economic reform plan, concluded the IIF.

S&P REVISES OUTLOOK ON KUWAIT TO “NEGATIVE” FROM “STABLE”

Standard & Poor’s (S&P) revised its outlook on the long-term foreign-currency and local-currency sovereign credit ratings on Kuwait to “negative” from “stable”.

At the same time, the rating agency affirmed the foreign-currency and local-currency sovereign credit ratings at “AA-/A-1+”. The “negative” outlook primarily reflects the rating agency’s view of risks stemming from fiscal pressure, including the likely depletion of the GRF, the government's main source of budget funding, while alternative financing arrangements are not yet in place.

Standard & Poor’s could lower the ratings over the next two years if Kuwait's institutional settings prevent the government from finding a sustainable long-term solution to its funding needs. In an extreme case, an insufficient policy response could leave Kuwait facing a hard fiscal budget constraint, potentially resulting in a disorderly expenditure adjustment that could inflict long-term damage on the Kuwaiti economy.

The rating agency could also lower the ratings if broader reform efforts, such as taxation and labor market changes, and measures to diversify the economy remain sluggish, increasing the burden on Kuwait's fiscal and balance-of payments metrics beyond 2020.

Additionally, ratings could come under pressure if S&P considers that Kuwait's monetary policy flexibility has reduced or regional geopolitical tensions materially deteriorate, potentially disrupting key trade routes.

On the other hand, Standard & Poor’s could revise the outlook to “stable” if the authorities swiftly address immediate and medium-term funding constraints. Wide-ranging political and economic reforms enhancing institutional effectiveness and improving long-term economic diversification would also support the ratings.

The outlook revision primarily reflects the rating agency’s view of risks stemming from the continued depletion of the GRF, the government's main fiscal liquidity buffer, given that the authorities are yet to adopt a timely alternative funding strategy. The GRF has been the sole funding source for deficits at central government level since October 2017, when the debt law expired and it was no longer possible to issue government debt. Standard & Poor’s notes that the GRF balance has been steadily reducing over the past three years, but this process has accelerated in recent months following the decline in oil prices and Kuwait's implementation of the OPEC+ oil production cut agreement in March-April 2020, which has adversely affected revenue.

S&P projects the central government deficit will amount to almost 40% of GDP during the fiscal 2020 (fiscal year ends March 30), up substantially from an estimated 10% in fiscal 2019. Although full details on the GRF's current position are not available, the rating agency estimates that the GRF alone will be unable to fund a deficit of that magnitude. Other financing options have faced implementation delays, and so far no clear alternatives have been put in place.

CI AFFIRMS THE LONG-TERM FOREIGN CURRENCY RATING (LT FCR) AND LONG-TERM LOCAL CURRENCY RATING (LT LCR) OF UAE AT “AA-”

Capital Intelligence (CI) affirmed the Long-Term Foreign Currency Rating (LT FCR) and Long-Term Local Currency Rating (LT LCR) of the United Arab Emirates (UAE) at “AA-”. The sovereign's Short-Term Foreign Currency Rating (ST FCR) and Short-Term Local Currency Rating (ST LCR) have also been affirmed at “A1+”. The outlook for the ratings remains “stable”.

The ratings reflect the continued strength of the country's external position, which is characterized by the availability of substantial financial assets. The ratings are also supported by the stable domestic political situation and high GDP per capita. In addition, they reflect CI’s expectation that the oil rich emirate of Abu Dhabi would be willing to support federal institutions in the unlikely event of financial distress.

The UAE's external accounts are deemed strong. The current account posted a healthy surplus of about 7.4% of GDP in 2019 (10% in 2018), fueled by strong tourism receipts and oil exports, as per CI.

Moreover, it is projected to remain in surplus despite the negative repercussions of the spread of Covid-19 on oil exports and tourism, and is expected to average at 2.8% of GDP in 2020-21. Official foreign exchange reserves declined slightly to US$ 102.1 billion in the first four months of 2020 as the central bank drew down reserves in order to mitigate the adverse effects of Covid-19 on the economy. However, the current level of reserves fully covers short-term external debt on a remaining maturity basis. Although there is limited disclosure on the assets of sovereign wealth funds, it is estimated that the Abu Dhabi Investment Authority (ADIA), the largest of the UAE's funds, has around US$ 825 billion under management.

This is three times the size of the country's total external debt (as estimated by the IMF) and equivalent to around 200% of 2019 GDP. While the net creditor position of the country cannot be taken as a solvency risk indicator of individual emirates, CI expects that Abu Dhabi, being the wealthiest emirate, would provide financial assistance to the federal government and/or the central bank if required.

Marred by lower oil production and the adverse impact of Covid-19, the Emirati economy is expected to contract by 3.5% in 2020, compared to growth of 1.3% in 2019. According to CI's baseline scenario, the economy is expected to start its gradual recovery in the last quarter of 2020, and is forecast to grow by 3.3% in 2021.

EIB APPROVES € 1.9 BILLION FOR EGYPT TO FINANCE PROJECTS IN TRANSPORT AND TO SMEs SECTOR AMID THE COVID-19 CRISIS

The European Investment Bank's (EIB) board approved an outline finance worth € 1.9 billion for Egypt to finance projects in transport and to support the small and medium-sized enterprises (SMEs) sector amid the COVID-19 crisis, as per the Minister of International Cooperation.

The loan provides € 1.1 billion for the National Authority for Tunnels (NAT) to implement three projects and allocates € 800 million for the National Bank of Egypt (NBE) to back SME projects in countering the impact of COVID-19, as per the same source.

The Minister added that the new loans came as a result of the EIB's mission visit in February. For the € 1.1 billion loan, it would support the vital Egyptian transport sector, which contributes 4.6% to Egypt's GDP and provides about 6.2% of job opportunities in the domestic market.

The Minister added that the railways serve 500 million passengers annually on average, adding that the current project portfolio in the Egyptian transport sector records US$ 5 billion, covering 30 projects financed by the EIB, the World Bank Group, the European Bank for Reconstruction and Development (EBRD), in addition to Japan, China, Korea and France.

For his part, Egypt's Minister of Transport said that the loan for the transport sector includes € 240 million, out of € 500 million, that would be used in the project to renovate the second line of the Cairo Metro. He added that EBRD and Agence Francaise de Developpement (AFD) have showed their willingness to provide the remainder finance.

Regarding the € 800 million loan, it aims at providing liquidity for the SMEs to support their working capital needs and capital spending, in addition to creating new job opportunities in the local market, through which the SMEs be able to grow and support the national economy. The EIB has introduced total finances worth around € 9.7 billion since the start of the bilateral strategic partnership in 1979, while the ongoing portfolio records € 2.3 billion.

The rating agency understands that the government could implement several short-term measures to mitigate continued GRF depletion, a combination of which we expect will be introduced in the following weeks. These measures include the suspension of a 10% of revenue transfer to the Future Generations Fund (FGF), which together with GRF comprises the sovereign wealth fund the Kuwait Investment Authority (KIA); the FGF extending a loan to the GRF; or the FGF providing cash in return for other GRF assets. The authorities have so far been reluctant to directly draw on FGF assets, which are mainly earmarked for future generations. S&P estimates the assets amounted to over 400% of GDP at the end of 2019, but ordinarily they cannot be drawn upon without parliamentary approval.

A long-term, sustainable funding policy has also yet to be put in place, while risks to the government's short-term funding sources remain. In the past, Kuwait's parliament has opposed passing a law to allow the government to issue debt. Agreeing substantial policy measures in 2020 could be particularly challenging given the political cycle, with upcoming parliamentary elections in November 2020. In S&P's view, lack of a prompt solution to Kuwait's funding arrangements could have a number of negative longer-term economic consequences. Specifically, in the absence of other measures, complete depletion of the GRF could lead to a hard budget constraint for Kuwait. Such a constraint could precipitate a distortionary expenditure adjustment at a time when economic performance is already weak owing to the COVID-19 pandemic and the contraction in both oil and nonoil sectors. That, in turn, could hamper the prospects for Kuwait's economy.

SURVEYS

ABU DHABI TOPS MIDDLE EAST CITIES IN OCCUPANCY RATES IN 5M 2020, AS PER EY

Ernst & Young issued its latest Hotel Benchmark Survey on the Middle East for the first five months of 2020 (four and five star hotels), according to which occupancy rates decreased in all fourteen cities within the region.

Occupancy rates decreased in 14 cities considered in the survey with Beirut registering the most significant decrease of 53.8%. The largest declines after Beirut were seen by Madinah which reported a decline of 35.8% and Dubai with a fall of 33.9%.

According to the survey, the cities of Abu Dhabi, Riyadh and Doha took over the first three ranks amongst peers in hotel occupancy, with 68% for Abu Dhabi, 58% for Riyadh and 57% for Doha. At the lower end of the regional scale were Madinah (34%), Manama (31%) and Beirut (14%).

Furthermore, a total of 13 cities reported decreases in the average room rate, registering 34.5% in the case of Makkah. The most significant downward movements after Makkah were posted by Beirut (-33.0%) and Jeddah (-28.4%). Only one city reported an increase in average room rate namely Kuwait City (4.4%).

Dubai, Kuwait City, Ras Al Khaimah and Jeddah reported the highest average room rates of US$ 214, US$ 177 and US$ 157 (Ras Al Khaimah and Jeddah) respectively. At the lower end were Makkah, Cairo-City and Abu Dhabi with US$ 105 for Makkah, US$ 102 for Cairo-City and Abu Dhabi with US$ 86.

In this context, the rooms' yield decreased in all cities in the survey. The most significant decreases were seen in Beirut, Makkah and Madinah with -86.2% for Beirut and -58.4% for Makkah and -56.7% for Madinah. Kuwait City (US$ 98), Dubai (US$ 95) and Riyadh (US$ 88) had the highest rooms' yields, while those of Manama (US$ 41), Madinah (US$ 39) and Beirut (US$ 18) were the lowest.

ERNST & YOUNG MIDDLE EAST HOTEL BENCHMARK SURVEY

	Occupancy %		Average Room Rate (US$)		Room Yield (US$)	
	5M 2020	5M 2019	5M 2020	5M 2019	5M 2020	5M 2019
Abu Dhabi	68	78	86	110	58	86
Riyadh	58	64	152	162	88	103
Doha	57	69	108	110	62	76
Kuwait City	55	61	177	170	98	103
Ras al Khaimah	51	75	157	160	80	120
Makkah	48	75	105	161	50	121
Dubai	45	79	214	264	95	208
Cairo	42	71	102	117	43	84
Jeddah	39	53	157	219	62	117
Muscat	37	65	122	143	45	93
Amman	36	58	121	148	44	86
Madinah	34	69	116	130	39	90
Manama	31	52	133	162	41	84
Beirut	14	68	129	192	18	130

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

MENA ECONOMIES TO SEE DEEP RECESSIONS IN H2 2020, AS PER MITSUBISHI UFJ FINANCIAL GROUP

Nearly all economies in the MENA region will witness deep recessions with contraction in overall real GDP growth in 2020 by 5.6% from +0.2% in 2019, whereas the same in the GCC region will fall 3.9% in 2020 from +0.6% in the previous year, a report by Mitsubishi UFJ Financial Group (MUFG) said.

Lockdowns and social distancing measures continue to ease across the MENA region as authorities attempt to strike the delicate balance between limiting further damage to their economy's weighed against health risks, said Mitsubishi UFJ Financial Group (MUFG), a Japanese bank holding and financial services company, in its latest Mena Economic Weekly.

The reopening of economies are coming at a time when the number of COVID-19 infections across the region (and globally) are still rising. They are cognizant they might have to impose new restrictions at any time.

The epidemiological course of COVID-19 remains ever apparent, with various clusters likely to keep popping up, highlighting that a further rise in infections can't be ruled out until the pandemic is contained globally by a vaccine or, like Spanish Flu, by dying out naturally.

The base case assumes that a path of tentative and occasionally interrupted re-opening in the MENA region is continued, rather than seeing further iterative waves of the pandemic that forces a return to draconian lockdowns, the MUFG report said.

However, that does not mean there will be no lingering impact on consumer behavior from the pandemic or no permanent economic damage from the measures put in place to contain it. Far from it. MUFG forecasts point to a region which, by end 2021, has a level of activity that is not just well below its pre-pandemic growth trajectory but, in many cases, still below its end 2019 level.

For buoyant financial markets seemingly focused on growth rates, it can only be a matter of time before the degree of permanent damage reflected in a newer lower level of activity starts to matter, the report added.

Despite the phased easing in lockdown restrictions, the region is by no means out of the woods, but these economies have passed the nadir in economic contraction. The conversation is beginning about what the next normal could entail and how sharply its contours will diverge from those that previously shaped the region, but there currently remain more questions than answers.

While the region is weathering the storm, the near-term economic outlook remains challenged. Most immediately, the lockdown imposed in response to the pandemic has been far reaching and long. As the domestic economy normalizes, growth should recover, bolstered by a pick-up in oil output as Opec+ production restrictions ease, as per Mitsubishi UFJ Financial Group.

Though, one actuality is clear – debt ratios will be higher – for individuals, corporates, and especially for governments as well as government related entities (GREs). In the absence of strong growth, there are only so many ways the latter can be addressed: austerity, default, inflation or taxation. Across the Mena region, we are likely to see some mixture of all of these in some scope, magnitude and in various timeframes, the report said.

CORPORATE NEWS

SAUDI'S QIC AWARDS MAJOR ROAD & BRIDGE CONTRACTS TO SAJCO

Saudi Arabia-based Qiddiya Investment Company (QIC) has awarded a three-year major stormwater drainage, roads and bridges contract to Saudi firm Shibh Al Jazira Contracting Company (Sajco).

This agreement includes development of 45 km-long roads and seven bridges and grade-separated interchanges that will provide access from the main approach highway, deep into Qiddiya's Resort Core with its theme parks and other attractions, towards the Motion Zone, home to world-class motor racing facilities, and to Qiddiya's spectacular Golf and Equestrian Community with its championship courses and beautiful residential offerings, said the statement from QIC.

To build these roads, Sajco will excavate 6.5 million cubic meters of earth, utilize more than 80,000 cubic meters of concrete for the bridges and associated structures and 1.2 million square meters of asphalt for the road surfaces, it added.

TAQA'S UNIT AWARDED US$ 246 MILLION RECYCLED WATER DISTRIBUTION PROJECTS

One of the subsidiaries of Abu Dhabi National Energy Company (Taqa) was awarded two projects for a total value of AED 900 million to expand the company's recycled water distribution program.

Abu Dhabi Distribution Company (ADDC) won the projects, which will have a capacity to transfer around 85 million imperial gallons per day (MIGD) of recycled water upon completion, according to Taqa's disclosure.

Commercial operations and nearly 4,000 farms would benefit from the expansion of ADDC's program, which will attain the company's objective to better use desalinated water and prevent the depletion of groundwater resources.

These two new projects will be implemented in two phases, with the first 30 MIGD pipeline project to be completed by the third quarter (Q3) of 2021 and the second 55 MIGD project expected in Q4-21.

KCPC WINS KUWAIT SABAH AL AHMAD CITY PROJECT WORK

The Kuwait Company for Process Plant Construction & Contracting (KCPC) said it was awarded a KWD 4.4 million (US$ 14.2 million) contract for asphalt paving and maintenance works within Sabah Al Ahmad City Sector B.

As per the deal awarded by the Public Authority for Housing Welfare, the entire work will be completed for within a period of 14 months, it added.

TECHNIPFMC SIGNS EPC CONTRACT WITH ANOPC

TechnipFMC signed a major engineering, procurement, and construction (EPC) contract with Assiut National Oil Processing Company (ANOPC) for the construction of a new hydrocracking complex for the Assiut refinery in Egypt.

This EPC contract covers new process units such as a Vacuum Distillation Unit, a Diesel Hydrocracking Unit, a Delayed Coker Unit, a Distillate Hydrotreating Unit as well as a Hydrogen Production Facility Unit using TechnipFMC's steam reforming proprietary technology. The project also includes other process units, interconnecting, off sites and utilities.

The complex will transform lower-value petroleum products from Assiut Oil Refining Company's (ASORC) nearby refinery into approximately 2.8 million tons per year of cleaner products, such as Euro 5 diesel.

The company is working with ANOPC to complete the remaining conditions precedent to enable project work to commence. The company will include the contract award in its inbound when all the requirements are fulfilled.

KUWAIT'S KAMCO INVESTMENT BUYS US$ 31.5 MILLION OFFICE PROPERTY IN UK

Kuwait's Kamco Investment Company bought an office property in Surrey, United Kingdom, for approximately KWD 9.7 million (US$ 31.5 million).

The deal is expected to result in an annual return of 8.5% approximately, the company said in a statement.

TRSDC AWARDS RED SEA AIRPORT PROJECT WORK CONTRACT

The Red Sea Development Company (TRSDC) has awarded its largest value contract to date for airside infrastructure works for the international airport coming up within the mega Saudi development.

The contract was awarded following a competitive tendering process to a joint venture between leading Saudi contractors Nesma & Partners Contracting Company and Almabani General Contractors, both of which have a strong track record for delivering similar projects in the region.

Land levelling work is already under way to prepare the airport for development and the project remains on schedule to support TRSDC plans to welcome the first guests to the destination by the end of 2022.

The contract covers the essential construction of airside infrastructure works, including the design and building of a Code F runway extending 3,700 meters, Code B seaplane runway, parallel and link taxiways and pavement works, aeronautical navigational aids, aerodrome ground lighting, airside utilities, helipads, roads and associated buildings.

According to TRSDC, the design contract for the airport was awarded to Foster + Partners in October 2019.

Additionally, GACA approved the conceptual airspace and aeronautical studies that draw the approach path for flights bound for the airport, domestically and internationally.

Once complete, the airport will serve an estimated one million tourists per year catering to both domestic and international flights.

SIRAJPOWER ENTERS IN LONG-TERM DEBT FINANCING DEAL WITH APICORP

UAE's distributed solar energy provider SirajPower said it signed a US$ 50 million long-term non-recourse credit facility for solar distributed generation from The Arab Petroleum Investments Corporation (APICORP), an energy-focused multilateral development financial institution.

With this financing facility, SirajPower proves the bankability and sustainability of its business model and adds another milestone by completing a first-of-its-kind debt-financing transaction for distributed solar energy in the Middle East, as per a statement.

Distributed solar energy comprises individual power generation systems that can be both grid-connected or off-grid.

The funding will make it possible for SirajPower to expand its offering to businesses across various sectors, enabling them to save on their utility bills whilst simultaneously offsetting their carbon footprint.

CAPITAL MARKETS

EQUITY MARKETS: WEEKLY PRICE DECLINES IN MENA EQUITIES ON LOWER IMF ECONOMIC FORECAST

MENA equity markets shifted to a negative territory this week, as reflected by 0.5% decline in the S&P Pan Arab Composite index, mainly on reduced sentiment after the IMF cut its economic forecast for the region in 2020 due to lower oil prices and the Coronavirus crisis, and dragged by some unfavorable market-specific and company-specific factors.

The heavyweight Saudi Tadawul registered shy price retreats of 0.3% week-on-week, mainly on reduced sentiment after the IMF said that economies in the MENA region are expected to contract by 5.7% in 2020, more than two percentage points lower than its estimate of -3.3% in April 2020, and driven by some unfavorable company-specific factors. NCB's share price fell by 3.2% to SR 35.90. Samba's share price went down by 1.1% to SR 26.80. Kingdom Holding's share price declined by 0.9% to SR 6.80. Zain Saudi Arabia's share price shed 5.0% to SR 11.68. Zain Saudi Arabia announced a 55% year-on-year fall in its 2020 second quarter net profits to reach SR 59 million. STC's share price closed 2.0% lower at SR 96.0. STC delayed for the second time this year the purchase of Vodafone Group's 55% stake in Vodafone Egypt, citing logistical challenges stemming from the spread of the COVID-19 pandemic.

Boursa Kuwait saw price falls of 2.1% week-on-week, on reduced sentiment after the IMF said that regional economies are expected to contract in 2020 more than initially estimated. Boubyan Bank's share price decreased by 1.1% to KWf 530. NBK's share price shed 1.4% to KWf 799. Kuwait Finance House's share price closed 2.0% lower at KWf 591. Agility's share price dropped by 4.4% to KWf 733. Mabanee's share price plunged by 4.9% to KWf 624.

The UAE equity markets registered a 1.0% decline in prices week-on-week, mainly driven by some unfavorable market-specific factors. The IMF lowered its economic forecast for the region. Also, Standard and Poor's said that Dubai's economy would likely suffer a "significant shock" in 2020 as the Coronavirus pandemic and its consequences weigh on most sectors in the Middle East's business hub. Emirates NBD's share price fell by 3.8% to AED 8.55. du's share price declined by 1.3% to AED 5.15. Tabreed's share price decreased by 1.0% to AED 1.94. Emaar Properties' share price dropped by 4.0% to AED 2.64. Emaar Malls' share price plunged by 6.0% to AED 1.41. Standard and Poor's said that it

EQUITY MARKETS INDICATORS (JULY 12 TILL JULY 18, 2020)

Market	Price Index	Week-on Week	Year- to Date	Trading Value	Week-on Week	Volume Traded	Market Capitalization	Turnover ratio	P/E*	P/BV*
Lebanon	61.2	-0.5%	-12.2%	6.3	-28.8%	0.5	6,823.0	4.8%	6.1	0.52
Jordan	277.4	-2.3%	-22.9%	18.5	-56.6%	13.1	17,354.3	5.5%	10.3	1.19
Egypt	262.4	-4.6%	-24.0%	377.3	-20.0%	2,423.3	39,236.0	50.0%	8.8	1.64
Saudi Arabia	323.2	-0.3%	-12.3%	7,363.9	-8.4%	1,464.8	2,253,163.3	17.0%	16.8	2.48
Qatar	165.0	0.1%	-10.7%	801.6	5.5%	1,990.2	149,141.8	27.9%	15.5	1.92
UAE	87.1	-1.0%	-23.2%	369.2	-15.1%	1,287.4	238,337.4	8.1%	10.7	1.64
Oman	175.2	-0.6%	-12.8%	21.1	83.3%	44.5	15,091.2	7.3%	9.7	0.86
Bahrain	122.7	2.3%	-25.3%	12.6	133.7%	32.8	18,429.0	3.5%	10.1	1.30
Kuwait	94.2	-2.1%	-21.4%	420.9	54.3%	681.0	85,095.5	25.7%	14.7	1.61
Morocco	238.3	2.1%	-18.1%	34.3	69.2%	1.6	55,168.1	3.2%	16.7	2.64
Tunisia	64.9	-0.5%	-10.3%	6.5	-3.9%	3.8	7,758.8	4.4%	13.6	2.33
Arabian Markets	**668.6**	**-0.5%**	**-15.2%**	**9,432.1**	**-6.4%**	**7,942.8**	**2,885,598.4**	**17.0%**	**15.9**	**2.32**

Values in US$ million; volumes in millions * Market cap-weighted averages

Sources: S&P, Bloomberg, Bank Audi's Group Research Department expects a 30%-40% slump in Emaar's earnings in 2020 and a 15%-20% dive in overall revenues, while the anticipated recovery next year would be only partial.

The Egyptian Exchange posted a 4.6% fall in prices week-on-week, as rising tensions between Egypt and Ethiopia over a mega-dam on the Nile River, the IMF's reduced economic forecast for the region this year, and some unfavorable company-specific factors weighed on investor sentiment. Commercial International Bank's share price fell by 5.1% to LE 62.95. Commercial International Bank announced net profits of LE 5.0 billion, down by 6.6% year-on-year. EFG-Hermes' share price plunged by 6.9% to LE 13.03. Talaat Moustafa Group's share price decreased by 5.7% to LE 5.81. Juhayna Food Industries' share price tumbled by 6.3% to LE 7.55. Palm Hills Development's share price dropped by 1.3% to LE 1.271. East Delta Four Mills' share price shed 1.9% to LE 88.28. East Delta Four Mills announced net profits of LE 146 million in FY 2019/2020, down by 25% year-on-year.

The Qatar Exchange saw mixed price movements this week, which resulted into a tiny rise in the S&P Qatar index of 0.1%. Downbeat IMF economic forecasts for the region and unfavorable financial results were a drag to some Qatari equities, while news that Qatar has won a round in a legal dispute to reopen airspace helped lifting investor sentiment, in addition to some favorable company-specific factors. QNB's share price edged up by 0.2% to QR 18.18. QNB announced 2020 second quarter net profits to reach QR 2.8 billion as compared to net profits of QR 3.8 billion a year earlier. Doha Bank's share price surged by 3.9% to QR 2.40. Barwa Real Estate's share price closed 1.1% higher at QR 3.255. In contrast, Masraf Al Rayan's share price declined by 1.3% to QR 3.882. QIB's share price went down by 2.6% to QR 15.60.

FIXED INCOME MARKETS: TWO-WAY FLOWS IN MENA BOND MARKETS THIS WEEK

MENA fixed income markets continued to see mixed price movements this week. Some regional debt papers traced an upward trajectory, as escalating US-China tensions and a recent sharp rise in Coronavirus cases around the world fueled concerns over the pace of global economic recovery, spurring demand for safety. Some other regional papers saw price declines on hopes of a potential breakthrough in Coronavirus vaccine.

In the Egyptian credit space, US dollar-denominated sovereigns maturing in 2025, 2030 and 2040 registered price gains of 0.38 pt, 0.20 pt and 0.25 pt respectively week-on-week. Euro-denominated sovereigns maturing in 2025 were down by 0.13 pt, while sovereigns maturing in 2030 closed up by 0.04 pt. Lawmakers in Egypt approved this week a new central security depositary allowing Egypt's bonds and bills settlement by Belgium-based Euroclear Bank, a move aiming to widen the local debt market access to foreigners.

In the Dubai credit space, sovereigns maturing in 2029 posted price rises of 0.43 pt week-on-week. Prices of DP World'30 increased by 0.24 pt. Majid Al Futtaim'29 was slightly up by 0.03 pt. In contrast, Emirates Airline'28 declined by 0.15 pt. Emaar'26 registered price contractions of 0.63 pt. Standard and Poor's lowered its rating on real estate developer Emaar Properties PJSC to "BB+" from "BBB-" with a "negative" outlook, as it expects weakening across all its business segments in 2020 on the heels of the economic slowdown following the COVID-19 pandemic that would likely lead to material deteriorations in Emaar Properties' credit metrics.

In the Abu Dhabi credit space, sovereigns maturing in 2024 closed up by 0.19 pt week-on-week. Prices of Mubadala'24 improved by 0.23 pt. ADNOC'29 was up by 0.28 pt. Taqa'26 posted price gains of 0.13 pt. Amongst financials, ADIB Perpetual (offering a coupon of 7.125%) closed down by 0.18 pt. Noor Bank Perpetual (offering a coupon of 6.25%) saw price retreats of 0.11 pt. Elsewhere in the UAE, the government of the Emirate Sharjah raised US$ 1 billion this week through the sale of 30-year Formosa bonds at 4%.

In the Saudi credit space, sovereigns maturing in 2025 and 2030 posted price contractions of 0.25 pt and 0.13 pt respectively week-on-week. Prices of Aramco'24 declined by 0.03 pt. In contrast, STC'29 closed up by 0.15 pt. SABIC'28 posted price gains of 0.45 pt. Prices of SECO'24 improved by 0.13 pt.

In the Bahraini credit space, sovereigns maturing in 2023 registered price rises of 0.13 pt, while prices of sovereigns maturing in 2029 retreated by 0.50 pt week-on-week. NOGA'24 was up by 0.05 pt. In the Omani credit space, sovereigns maturing in 2025 and 2029 posted price contractions of 0.65 pt and 1.25 pt respectively. Omantel'28 traded down by 0.75 pt.

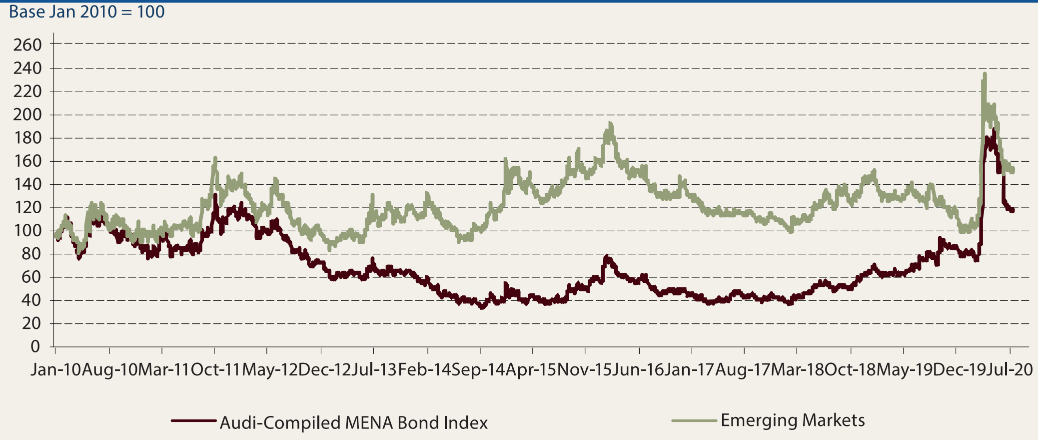
All in all, regional bond markets continued to see two-way flows over the week, as Coronavirus resurgence flocked demand for safe-haven assets, while vaccine hopes increased appetite for risk.

MIDDLE EAST 5Y CDS SPREADS V/S INTL BENCHMARKS

in basis points	17-Jul-20	10-Jul-20	31-Dec-19	Week-on-week	Year-to-date
Abu Dhabi	62	64	36	-2	26
Dubai	193	189	91	4	102
Kuwait	62	65	37	-3	25
Qatar	61	59	37	2	24
Saudi Arabia	103	103	57	0	46
Bahrain	351	344	176	7	175
Morocco	148	141	91	7	57
Egypt	460	452	277	8	183
Iraq	813	813	384	0	429
Middle East	**250**	**248**	**360**	**2**	**-110**
Emerging Markets	**153**	**120**	**148**	**33**	**5**
Global	**167**	**168**	**163**	**-1**	**4**

Sources: Bloomberg, Bank Audi's Group Research Department

Z-SPREAD BASED AUDI MENA BOND INDEX V/S INTERNATIONAL BENCHMARKS



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

SOVEREIGN RATINGS & FX RATES

SOVEREIGN RATINGS	Standard & Poor's	Moody's	Fitch
LEVANT			
Lebanon	SD/-/SD	Ca/Stable	RD/-/C
Syria	NR	NR	NR
Jordan	B+/Stable/B	B1/Stable	BB-/Negative/B
Egypt	B/Stable/B	B2/Stable	B+/Stable/B
Iraq	B-/Stable/B	Caa1/Stable	B-/Negative/B
GULF			
Saudi Arabia	A-/Stable/A-2	A1/Negative	A/Stable/F1+
United Arab Emirates	AA/Stable/A-1+*	Aa2/Stable	AA/Stable/F1+*
Qatar	AA-/Stable/A-1+	Aa3/Stable	AA-/Stable/F1+
Kuwait	AA-/Negative/A-1+	Aa2/RUR	AA/Stable/F1+
Bahrain	B+/Stable/B	B2/Stable	BB-/Stable/B
Oman	BB-/Negative/B	Ba3/Negative	BB/Negative/B
Yemen	NR	NR	NR
NORTH AFRICA			
Algeria	NR	NR	NR
Morocco	BBB-/Stable/A-3	Ba1/Stable	BBB-/Negative/F3
Tunisia	NR	B2/RUR	B/Stable/B
Libya	NR	NR	NR
Sudan	NR	NR	NR

NR= Not Rated   RWN= Rating Watch Negative   RUR= Ratings Under Review   * Emirate of Abu Dhabi Ratings

FX RATES (per US$)	17-Jul-20	10-Jul-20	31-Dec-19	Weekly change	Year-to-date
LEVANT					
Lebanese Pound (LBP)	1,507.50	1,507.50	1,507.50	0.0%	0.0%
Jordanian Dinar (JOD)	0.71	0.71	0.71	0.0%	0.0%
Egyptian Pound (EGP)	15.95	15.97	16.05	-0.2%	-0.6%
Iraqi Dinar (IQD)	-	-	1,182.87	-	-
GULF					
Saudi Riyal (SAR)	3.75	3.75	3.75	0.0%	0.1%
UAE Dirham (AED)	3.67	3.67	3.67	0.0%	0.0%
Qatari Riyal (QAR)	3.66	3.66	3.66	0.0%	0.1%
Kuwaiti Dinar (KWD)	0.31	0.31	0.30	0.0%	1.4%
Bahraini Dinar (BHD)	0.38	0.38	0.38	0.0%	0.0%
Omani Riyal (OMR)	0.38	0.38	0.39	0.0%	0.0%
Yemeni Riyal (YER)	250.00	250.00	250.00	0.0%	0.0%
NORTH AFRICA					
Algerian Dinar (DZD)	128.21	128.21	119.05	0.0%	7.7%
Moroccan Dirham (MAD)	9.58	9.64	9.57	-0.7%	0.1%
Tunisian Dinar (TND)	2.82	2.84	2.83	-0.8%	-0.5%
Libyan Dinar (LYD)	1.39	1.39	1.40	0.0%	-0.5%
Sudanese Pound (SDG)	55.14	55.14	45.11	0.0%	22.2%

Sources: Bloomberg, Bank Audi's Group Research Department

DISCLAIMER