

Economy

CONTACTS

Treasury & Capital Markets

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

Corporate Banking

Carol Ayat
(961-1) 959675
carol.ayat@bankaudi.com.lb

Mohamad Baydoun
(961-1) 959703
mohamad.baydoun@bankaudi.com.lb

Marketing and Communications

Marion Abou Jaoudé
(961-1) 977356
marion.abou-jaoude@bankaudi.com.lb

RESEARCH

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

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

Michèle Khoury Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

Stephanie Bou Sleiman
(961-1) 952397
stephanie.bousleiman@bankaudi.com.lb

Elias Missi
(961-1) 959747
elias.missi@bankaudi.com.lb

p.2 UPSIDE RISKS EMERGED WITH CHANGES AT BDL AS PER GOLDMAN SACHS

Goldman Sachs has issued a desk note saying that EM distressed sovereign credit has been in the centre of investor focus recently. LEBAN curve stands out as a forgotten laggard in that space. Desk thinks that, at around 7 cents on the dollar, bonds offer decent asymmetry here.

Also in this issue

p.2 Number of passengers at the airport increased by 21% year-on-year in the first seven months of 2023

p.3 Merchandise at Port of Beirut increased slightly by 2% in the first five months of 2023

p.4 Value of cleared checks in LP hikes by 78% in the first half of 2023

Surveys/Reports

p.5 BEIRUT RANKS SIXTH IN THE ARAB MENA REGION IN NUMBEO'S COST OF LIVING SURVEY

Numbeo, a global statistics website, recently released its global cost of living index in which it compares cities worldwide based on their scores in the index when benchmarked to New York City.

Also in this issue

p.6 Eight Lebanese Universities among the QS top universities worldwide for the year 2024

Corporate News

p.7 BALANCE SHEET OF FINANCIAL INSTITUTIONS TOTALS US\$ 531 MILLION AT END-MAY 2023

According to the latest statistics issued by the Central Bank of Lebanon, the total balance sheet of financial institutions amounted to US\$ 530.8 million at end-May 2023, registering a drop of 52.8% against its figure at end-2022.

Also in this issue

p.7 Sovereign fund created for Lebanon's oil and gas sector

p.8 Berytech hosts "Future of the Digital Ecosystem Through Generative AI" conference

Markets In Brief

p.9 MARKETS IN BRIEF: FIRST INCREASE IN EUROBOND PRICES IN ONE YEAR AMID BETS OF IMPROVEMENTS IN MONETARY REGIME

As a new era has started in BDL leadership, which is viewed by international investment banks as a chance of improvements in monetary/FX regimes, and amid plans to gradually move to a managed float system, while the currency in circulation outside BDL is starting to dry up, Lebanon's capital markets saw this week marginal movements in the LP/US\$ black market rate and an increase in bond prices to levels unseen since August 2022, while equities registered shy price retreats. In details, the LP/US\$ parallel market rate fluctuated marginally, hovering around LP/US\$ 89,000 on Friday, amid a smooth transition in BDL leadership and frozen "Sayrafa" activity except for paying public employee salaries. The relative stability in the LP/US\$ black market rate came amid belief that abandoning FX subsidy under the new BDL leadership would allow the Central Bank's FX reserves to stabilize. This compounded with a large contraction in the currency in circulation outside BDL of LP 17 trillion in the second half of July 2023 and a continuous inflow of hard currency during the summer tourist season. On the bond market, prices of sovereigns rose to 7.625 cents per US dollar for the first time since August 2022, as market players welcomed the change in BDL leadership. Finally, equity prices posted shy price declines of 0.3% and the BSE total turnover contracted by 41% week-on-week.

LEBANON MARKETS: JULY 31 - AUGUST 6, 2023

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

Bank Audi

ECONOMY

UPSIDE RISKS EMERGED WITH CHANGES AT BDL AS PER GOLDMAN SACHS

Goldman Sachs has issued a desk note saying that EM distressed sovereign credit has been in the centre of investor focus recently. LEBAN curve stands out as a forgotten laggard in that space. Desk thinks that, at around 7 cents on the dollar, bonds offer decent asymmetry here.

Indeed, broader political deadlock continues in Lebanon, blocking the way to IMF programme, banking sector restructuring and debt restructuring. However, economy appears to have found a base; local sovereign debt has been “deflated” to a negligible US\$ equivalent from c. US\$ 60 bn, as currency lost 98% of its value.

Importantly, after a 30-year service, Banque Du Liban (BDL) governor Riad Salameh is stepping down today. Desk sees a chance of improvements in monetary/FX regimes (and possibly beyond) following the changes in BDL leadership.

- Mr Salameh has been running Lebanon’s central bank for 30 years. A few weeks ago a scenario emerged where all vice-governors resign and Mr Salameh remains in the caretaker role. However, latest reports suggest vice-governors are staying and first vice governor Wassim Mansouri is due to assume a role of acting head of BDL. Desk thinks it is difficult to over-estimate the significance of the change in BDL leadership.
- Vice-governors’ decision to stay was combined with them presenting a plan of policy changes. It includes abandonment of current FX regime, where BDL buys FX from exchange bureaus at 91-92k LBP per USD and sells to importers at around 85k LBP (effective subsidy, bleeding BDL capital and “printing” money). Vice-governors are also proposing to move to a “managed float”.
- Additionally, vice-governors have demanded that Budget-2023 is imminently approved by the parliament, while Budget-2024 is approved by end of November. They also insisted on financial sector reform legislation to be approved (capital controls law, bank resolution law etc).
- It is prudent to assume that a lot of these intentions/demands will not be implemented. However, if BDL at least abandons the FX “subsidy” and minimizes interventions, this will have a number of important positive consequences for Lebanon’s credit profile, of which stabilization of FX reserves would be the primary one. Reserves currently stand at around US\$ 9 bn (+US\$ 17 bn equivalent of gold).
- There is very limited data on economic and fiscal performance of Lebanon at the moment. According to IMF, growth has been near zero in 2022-2023 and inflation has been running around 200-300%. Fiscal balance improved to a surplus in 2021, but then deteriorated to a 5-7% deficit in 2022-23, funded essentially via BDL. IMF projects Current Account deficit to improve in 2023 to 12.5% from 29% in 2022.
- In its recent report, IMF says that market is pricing in a 75% haircut on Eurobonds (GS thinks market is pricing more). IMF uses that 75% haircut to work the math around banks’ balance sheets. Separately, IMF suggests that, if debt restructuring takes place in 2023-24, then Debt/GDP drops to 110% from 509%. IMF estimates current level of GDP at around \$16bn. With \$35bn in FX debt (mainly Eurobonds) and \$1-2bn equivalent in local debt, it is unclear how IMF gets to 509% Debt/GDP. Most likely explanation is addition of negative BDL equity to the debt stack (IMF estimates equity gap of BDL at c. \$60bn). The latter, however, should get resolved through dealing with bank deposits.
- GS Desk thinks that, if and when restructuring takes place, bondholders will be able to get away with 70-75% nominal haircut on Eurobonds and end up with a 20-25% area recovery on bonds. Unclear, how long they have to wait for restructuring, but with bonds at 7 cents and accumulating PDI, it is perhaps worth the wait as per GS.

Finally, key risks revolve around infinite political deadlock, no change in BDL policies, further decline in reserves, continued hyperinflation leading to social instability.

NUMBER OF PASSENGERS AT THE AIRPORT INCREASED BY 21% YEAR-ON-YEAR IN THE FIRST SEVEN MONTHS OF 2023

The latest figures released by the Rafic Hariri International Airport (BIA) revealed that the airport traffic posted an improving performance in the first seven months (7M) of 2023 against the same period of the year prior.

Bank Audi

In details, total number of passengers increased by 20.7% in 7M 2023 when compared to the same period of 2022, reaching 4,084,378 passengers in the former period. In addition, the number of aircraft increased by 16.6% year-on-year. In parallel, the total freight handled by the airport decreased marginally by 0.7% year-on-year during the aforementioned period.

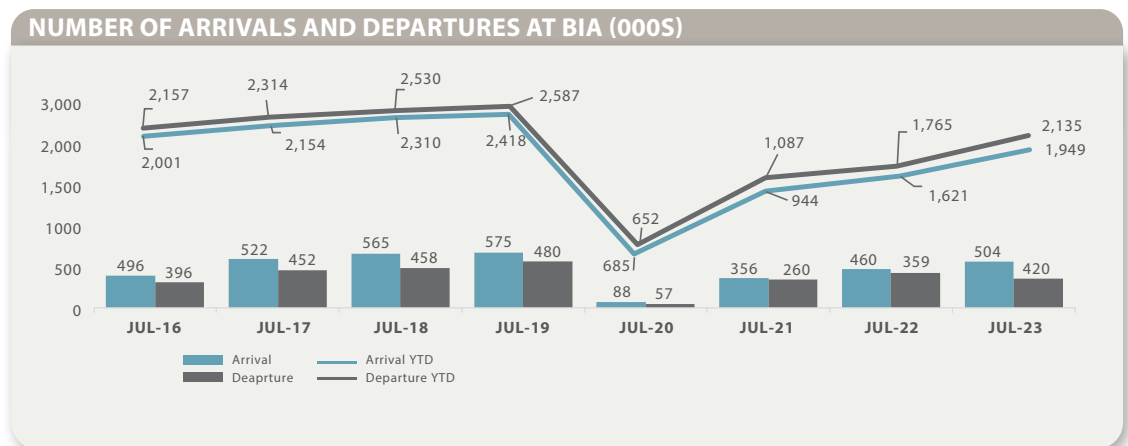
The number of incoming passengers increased by 21.0% year-on-year and that of departing passengers by 20.3%, to reach 2,135,333 and 1,949,045 respectively in 7M 2023. In parallel, landings and take-offs increased by 16.6% year-on-year in 7M 2023, with 16,671 planes landing and 16,666 planes taking-off during the period. Regarding the freight movement within the airport, a total of 18,540 tons were imported and unloaded during 7M 2023, while 14,363 tons were exported and loaded. The first mentioned activity posted an increase of 12.0% while the latter posted a 13.3% decrease on a yearly basis in 7M 2023.

Looking at the performance of the BIA during July 2023, we notice a 12.7% increase in the number of passengers year-on-year to reach 923,399 passengers. Additionally, the number of aircraft increased by 8.2% between July 2023 and July 2022. In parallel, total freight handled by BIA decreased by 2.6% year-on-year in July 2023.

The number of incoming passengers increased by 9.5% year-on-year and that of departing passengers by 16.9%, to reach 503,887 and 419,512 respectively in the seventh month of 2023. In parallel, landings increased by 8.2% and take-offs by 8.1% year-on-year in the seventh month of 2023, with 3,276 planes landing taking-off during the month.

Regarding the freight movement within the airport, a total of 3,099 tons were imported and unloaded during the seventh month of 2023, while 1,782 tons were exported and loaded. The first mentioned activity posted an increase of 14.5% while the latter posted a 22.6% drop on a yearly basis in the seventh month of 2023.

It is worth mentioning that Lebanon's summer season for tourism starts in June. This season historically shows an increase in tourism levels for the country. With performance this year already outperforming that of 2022, we can expect that the coming months will follow a similar trend and lead the sector further into recovery.



MERCHANDISE AT PORT OF BEIRUT INCREASED SLIGHTLY BY 2% IN THE FIRST FIVE MONTHS OF 2023

The latest statistics released by the Port of Beirut revealed that the quantity of goods reported a slight increase of 1.9% year-on-year, registering 2,106 thousand tons in the first five months of 2023, up from 2,067 thousand tons in the same period of 2022.

On the other hand, the number of containers registered a yearly decreased of 1.9% to reach 219,542 containers in the first five months of 2023, against 223,651 containers in the same period of the previous year.

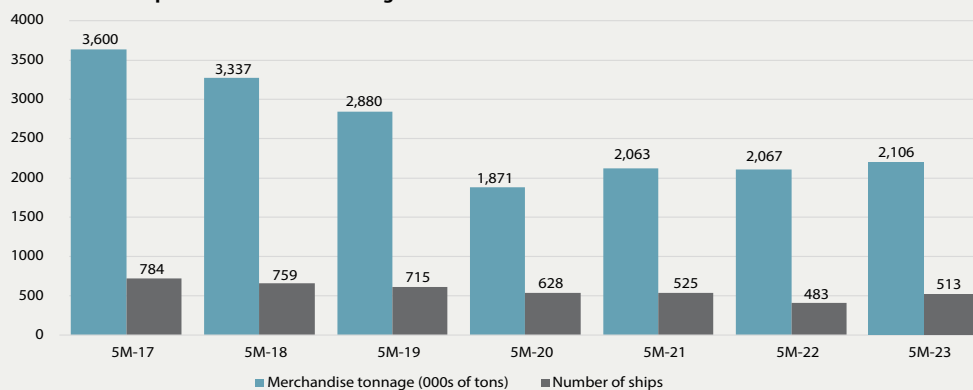
The number of ships witnessed an increase over this period reaching 513ships in the first five months 2023 against 483 ships in the same period of 2022, showing an increase of 6.2% year-on-year.

It is worth noting that transshipments YTD increased drastically by 80.5% year-on-year in the first five months of 2023, following a decrease of 15.0% between the first five months of 2022 and the first five months of 2021.

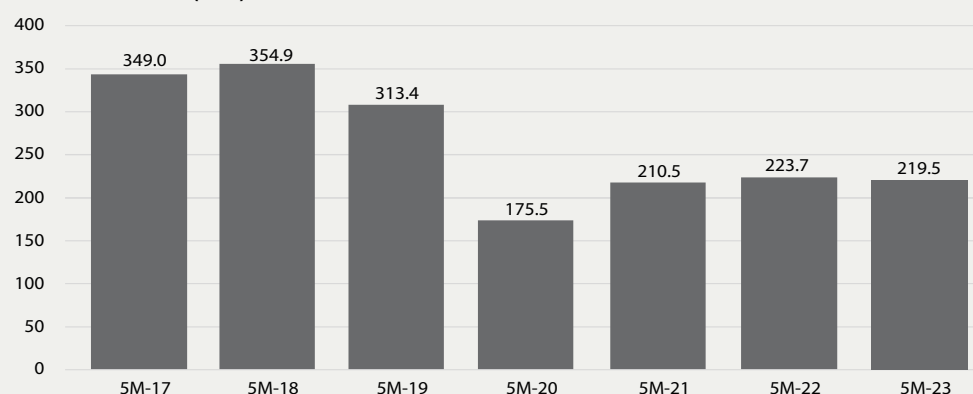
Bank Audi

ACTIVITY OF THE PORT OF BEIRUT

Number of the ships and merchandise tonnage



Number of containers (000s)



Sources: Port of Beirut, Bank Audi's Group Research Department

VALUE OF CLEARED CHECKS IN LP HIKES BY 78% IN THE FIRST HALF OF 2023

Value of cleared checks in Lebanese Pounds hiked by 78.0% year-on-year in the first half (H1) 2023 mirroring an increase in spending in LP during the above mentioned period. Checks cleared in LP were recorded at LP 29,514 billion in H1 2023 up from LP 16,583 billion in the same period of 2022.

On the other hand, total value of cleared checks in foreign currency (US\$), noticed a 63.0% drop year-on-year, this comes as many businesses are cashing fresh dollars only. Cleared checks in US\$ for H1 2023 were recorded at US\$ 2,173 million down from US\$ 5,878 million in the same period of the year prior.

The total value of cleared checks, an indicator of consumption and investment spending in the Lebanese economy, reached US\$ 8,212 million in the first half of 2023 down by 51.3% from US\$ 16,878 million in the first six months of the previous year.

It is worth noting that, effective February 1st 2023, the Lebanese Pound noticed a re-peg and was set at LP 15,000/US\$ (up from LP 1,507.5/US\$ prior). In turn, this change in exchange rates has affected the total valuation of cleared checks as checks cleared in LP have to be turned into US\$ for a total valuation. Moreover, the number of cleared checks registered 264,443 in the first six months of 2023, down by 73.9% from 1,013,924 checks in the same period of 2022. The average value per check reached US\$ 31,053 in the first six months of 2023, up from US\$ 16,647 in the same period of 2022.

It is worth noting that the value of returned checks registered US\$ 307 million in the first six months of 2023 up from US\$ 149 million in H1 2022. The number of returned checks stood at 2,459 in H1 2023 noting a drop of 64.9% from figures in the same period of 2022.

Bank Audi

SURVEYS/REPORTS

BEIRUT RANKS SIXTH IN THE ARAB MENA REGION IN NUMBEO'S COST OF LIVING SURVEY

Numbeo, a global statistics website, recently released its global cost of living index in which it compares cities worldwide based on their scores in the index when benchmarked to New York City.

The Cost of Living Index (Excl. Rent) is a relative indicator of consumer goods prices, including groceries, restaurants, transportation and utilities.

Numbeo provides other indices like the Rent Index which is an estimation of prices of renting apartments in the city compared to New York City. Groceries Index is an estimation of grocery prices in the city compared to New York City. To calculate this section, Numbeo uses weights of items in the "Markets" section for each city. Restaurants Index is a comparison of prices of meals and drinks in restaurants and bars compared to NYC. Cost of Living Plus Rent Index is an estimation of consumer goods prices including rent comparing to New York City.

In its recently released statistics, Beirut's index stood at 54.0. Beirut actually ranked sixth in the region and 290th globally in Numbeo's Mid-Year 2023 Cost of Living Index. The city was preceded by Dubai which ranked first in the region and 189th globally, Alkhobar which came second and 261st globally, Abu Dhabi which came third and 262nd globally, Doha which came fourth and 263rd globally and Manama which came fifth and 286th globally. Alexandria came last in the region (31st place) and ranked 546th globally.

ARAB MENA REGION'S RANKINGS BY COST OF LIVING INDEX (MID-YEAR 2023)

Global Rank	Cities	Cost of Living Index	Regional Rank
189	Dubai	66.10	1
261	Al Khobar	59.80	2
262	Abu Dhabi	59.80	3
263	Doha	59.40	4
286	Manama	55.00	5
290	Beirut	54.00	6
299	Riyadh	52.30	7
303	Ramallah	52.10	8
309	Jeddah	51.80	9
315	Muscat	50.40	10
326	Sharjah	49.20	11
332	Ad Dammam	48.40	12
338	Amman	47.30	13
340	Kuwait City	47.00	14
415	Erbil	38.00	15
438	Baghdad	35.70	16
452	Casablanca	34.20	17
457	Rabat	33.60	18
460	Marrakech	33.30	19
467	Algiers	32.50	20
480	Tangier	31.00	21
481	Tunis	31.00	22
485	Agadir	30.80	23
499	Damascus	29.30	24
505	Sfax	27.70	25
511	Soussa	26.30	26
518	Tripoli	25.80	27
525	Cairo	25.20	28
526	New Cairo	25.10	29
545	Giza	20.30	30
546	Alexandria	19.80	31

Sources: Numbeo, Bank Audi's Research Department

Bank Audi

EIGHT LEBANESE UNIVERSITIES AMONG THE QS TOP UNIVERSITIES WORLDWIDE FOR THE YEAR 2024

QS recently released its World University Rankings for the year 2024 in which it ranks the top 1,500 universities in the world according to a set of weighted criteria, namely Academic reputation, Employer reputation, Faculty student ratio, Citations per Faculty, International Faculty ratio, International students ratio, International Research Network, Employment Outcomes and Sustainability.

In Lebanon, AUB topped the list with an international rank of 226 (up from 252 the year before), followed by Lebanese University with an international rank of 577, Saint Joseph University of Beirut (international rank: 631-640), Lebanese American University (LAU) (international rank: 661-670), Holy Spirit University of Kaslik (USEK) (international rank: 661-670), Beirut Arab University (BAU) (international rank: 711-720), University of Balamand (international rank: 531-540), and Notre Dame University (NDU) (international rank: 801-1000).

At the level of the region, King Abdulaziz University (KAU) topped the QS university rankings for the year 2024 with an international rank of 143rd, followed by Qatar University (international rank: 173rd) and the King Fahd University (international rank: 180th).

Globally, the top three positions in the overall ranking were the Massachusetts Institute of Technology (MIT) coming first, followed by University of Cambridge 2nd and University of Oxford occupying the joint 3rd spot in the 2024 ranking.

It is worth mentioning that AUB scored 27.6 in Academic reputation, 41.6 in Employer reputation, 57.3 in Faculty student ratio, 24.2 in Citations per Faculty, 67.8 in International Faculty Ratio, 46.8 in International students ratio, 35.6 in International Research Network 88.5 in Employment Outcomes and 93.2 in Sustainability.

2024 QS WORLD UNIVERSITY RANKINGS

2024 Rank	2023 Rank	Institution name	Academic Reputation	Employer Reputation	Faculty Student Ratio	Citations per Faculty	International Faculty Ratio	International Students Ratio	International Research Network	Employment Outcomes	Sustainability
226	252	American University of Beirut (AUB)	27.6	41.6	57.3	24.2	67.8	46.8	35.6	88.5	93.2
577	601-650	Lebanese University	23.7	49.8	11.6	2.1	43.3	31.9	2.3	9.9	2.1
631-640	531-540	Saint Joseph University of Beirut (USJ)	9.2	27.6	46.8	2.5	90.8	19.7	1	13	9.7
661-670	601-650	Lebanese American University	10.5	28.2	35.5	3.2	78.9	26.4	1	10.4	7.8
661-670	571-580	Holy Spirit University of Kaslik	6	12	60.6	2	99	38.3	1	9.5	2.6
711-720	801-1000	Beirut Arab University	13.4	18.8	16.5	2.7	80.1	51.3	1.1	18.2	1.1
801-850	531-540	University of Balamand	4.9	13	83.8	2	12.6	21.8	1	8.2	1
901-950	801-1000	Notre Dame University-Louaize NDU	4.5	13.8	24.9	2.6	84.2	219	1	8	1

Sources: Quacquarelli Symonds, Bank Audi's Group Research Department

Bank Audi

CORPORATE NEWS

BALANCE SHEET OF FINANCIAL INSTITUTIONS TOTALS US\$ 531 MILLION AT END-MAY 2023

According to the latest statistics issued by the Central Bank of Lebanon, the total balance sheet of financial institutions amounted to US\$ 530.8 million at end-May 2023, registering a drop of 52.8% against its figure at end-2022.

It is worth noting that effective February 1st 2023, the Lebanese Pound was re-pegged at the rate of LP 15,000/US\$ from a prior LP 1,507.5/US\$. This in turn affects the total valuation of assets and liabilities as they are initially given in local currency.

In details, currency and deposits with Central Banks were registered at US\$ 26.4 million at end-May 2023 down from US\$ 95.7 million at end 2022 showing a decrease of 72.4% during the period.

Claims on resident customers dropped in May 2023 (52.6%) reaching US\$ 253.4 million, with respect to US\$ 534.8 million at end-2022. Claims on non-resident customers at end-May 2023 dropped by 18.9% with respect to end-2022, standing at US\$ 9.9 million in the former.

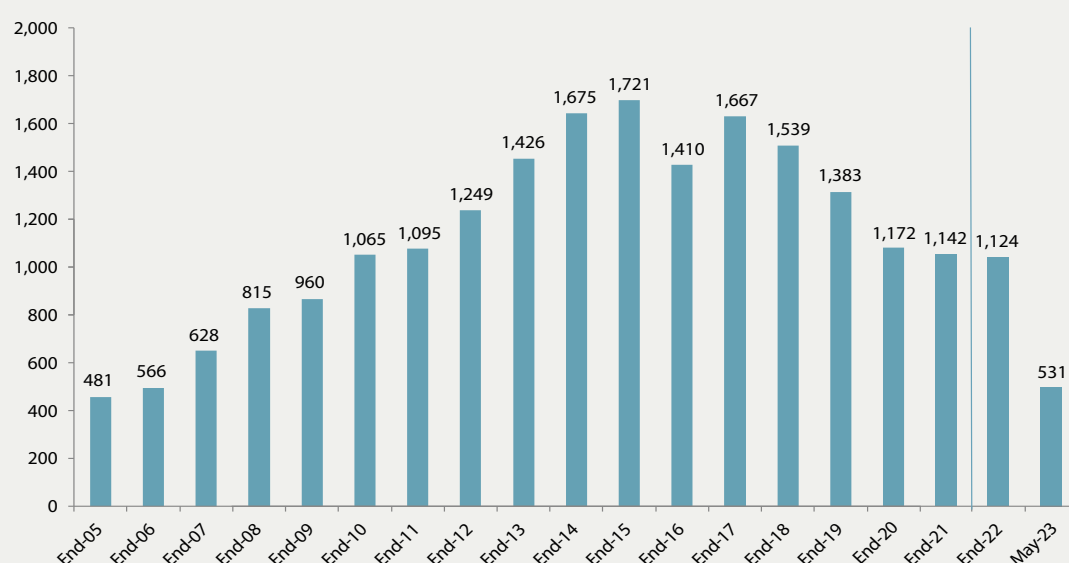
Claims on resident financial sector stood at US\$ 152.7 million as at end-May 2023 decreasing by 45.0% from its figure by end-2022. Claims on non-resident financial sector reached US\$ 36.8 million at end-May 2023, revealing a decrease of 14.4% when compared to its level at end-2022.

Claims on the public sector recorded US\$ 0.2 million at end-May 2023, registering a drop of 97.3% from its figure at end-2022. Securities portfolio dropped to US\$ 12.1 million at end-May 2023, down by 66.4% from its registered figure at end-2022.

Tangible assets reported retreated by 79.5% at end-May 2023 with respect to end-2022, reaching US\$ 9.9 million. Similarly, intangible assets decreased drastically from US\$ 56.0 million at end-2022 to US\$ 7.5 million at end-May 2023, showing a drop of 86.7%.

On the liabilities side, resident customer deposits contracted by 24.4% registering US\$ 144.7 million at end-May 2023, against US\$ 191.3 million at end-2022. Non-resident customer deposits contracted by 3.5% at end-May 2023 to stand at US\$ 5.7 million.

BALANCE SHEET OF FINANCIAL INSTITUTIONS (US\$ MILLION)



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

Bank Audi

Resident financial sector liabilities stood at US\$ 52.4 million at end-May 2023, representing a considerable decrease of 50.2% from end-2022. Non-resident financial liabilities showed a stagnation remaining the same between the two periods and standing at US\$ 56.3 million.

Public sector deposits hiked to US\$ 4.8 million at end-May 2023, witnessing an increase of 101.9% from its figure by end-2022.

Debt securities issued were recorded at US\$ 3.6 million at end-May 2023 against US\$ 0.6 million by end-2022.

Capital accounts reported US\$ 148.3 million at end-May 2023, dropping down from US\$ 502.5 million at end-2022, which shows a decrease of 70.5%.

SOVEREIGN FUND CREATED FOR LEBANON'S OIL AND GAS SECTOR

Lebanon has announced the creation of a national sovereign fund for oil and gas. The fund was created in a bid to secure the proper management and investment of petroleum-generated public funds to boost the development of Lebanon's economy in line with international standards, as per the Head of the Parliamentary Finance and Budget Committee.

The Parliamentary Finance and Budget Committee has set rules surrounding the fund which await adoption by Parliament and are as follows:

- The fund holds legal personality as a specialized public institution as well as financial & administrative independence. In turn, it stands free of oversight by executive authorities.
- The fund is to be managed by professional experts, which are hired by the Civil Service Council and through an international recruitment institution. The employment will be based on merit and qualifications.
- Revenue generated by the fund are to be divided between two segments: the first for savings and investment (75% of which are to be invested abroad) and the second for development. According to the Head of the Parliamentary Finance and Budget Committee, 80% of revenues will go to the first mentioned activity and the rest are to be used as financing for projects that benefit the local economy.

It is worth noting that Lebanon had relaunched its exploration process of Block 9 in its exclusive economic zone following a maritime border demarcation deal with Israel back in October 2022.

BERYTECH HOSTS "FUTURE OF THE DIGITAL ECOSYSTEM THROUGH GENERATIVE AI" CONFERENCE

A conference on Artificial Intelligence (AI) and Web 3 dynamics titled "The Future of the Digital Ecosystem Through Generative AI" was hosted by Berytech. The conference hosted speakers from international tech companies and was attended by 655 individuals.

The conference was co-organized by CMA CGM, Berytech Smart ESA, HEC Alumni Digital Hub Paris, HEC Alumni Lebanon Chapter along with Berytech and was held in Beirut's Digital District.

The event acted as a platform connecting community organizations within Lebanon's technology circles. These organizations played a major role in the conference's outreach process.

According to the Chairman and CEO of Berytech, collaborative efforts to rebuild the ecosystem within Lebanon are crucial. In turn, Berytech established a network of partners and supporters who shared its vision and worked towards similar objectives. Therefore, Berytech aims to leverage the potential of generative AI in order to create solutions which are transformative and socially responsible.

In parallel, according to a statement by the CMO at BCS Group and the President at HEC Alumni Digital Hub, Web 3.0 and the Generative AI sectors will be the fastest growing in the next 10 years. In turn, this will create some new challenges for companies, users and employees within all industries as well as huge opportunities for those who have anticipated the creation of this new ecosystem.

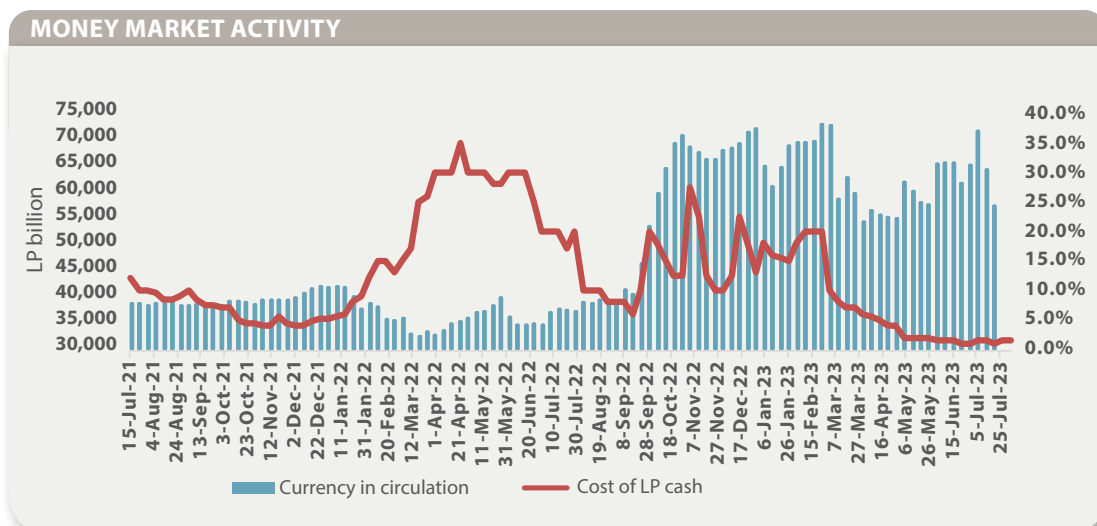
Bank Audi

CAPITAL MARKETS

MONEY MARKET: LARGE WEEKLY CONTRACTION IN M4 ON FALLING RESIDENT DEPOSITS AND CURRENCY IN CIRCULATION

The overnight rate, which is a non-cash rate on the money market, rose from 100% last week to 120% this week for technical reasons related to LP funds deposited in fresh LP accounts at BDL, which are inaccessible for interbank lending purposes. Concurrently, the cost of LP cash continued to hover around 1%-2%.

In parallel, the latest monetary aggregates released by the Central Bank of Lebanon for the week ending 20th of July 2023 showed that total resident banking deposits contracted significantly by LP 9,880 billion. This is mainly driven by a LP 9,192 billion fall in total LP resident deposits amid a significant decrease in LP demand deposits of LP 9,155 billion and a shy retreat in LP saving deposits of LP 37 billion, while foreign currency resident deposits declined by LP 689 billion (the equivalent of US\$ 46 million as per the official rate of LP 15,000). Within this context, the money supply in its broadest sense (M4) contracted significantly by LP 16,134 billion over the covered week amid a LP 6,922 billion decline in currency in circulation.



TREASURY BILLS MARKET: NOMINAL DEFICIT OF LP 2,221 BILLION IN FIRST SEVEN MONTHS OF 2023

The latest Treasury bills auction results for value date 3rd of August 2023 showed that the Central Bank of Lebanon allowed banks to subscribe in full to three six-month category (offering a yield of 3.50%), the one-year category (offering a yield of 4.50%) and the five-year category (offering a coupon of 6.00%).

The Treasury bills auction results for value date 27th of July 2023 showed subscriptions of LP 90 billion, fully allocated to the Central Bank of Lebanon and mostly concentrated in the six-month category (offering a yield of 4.00%). These compare to maturities of LP 607 billion, which resulted into a nominal weekly deficit of LP 517 billion.

On a cumulative basis, total subscriptions amounted to LP 7,061 billion over the first seven months of 2023, fully allocated to the Central Bank of Lebanon. The one-year category captured 36.1% of the total, followed by the two-year category with 26.8%, the six-month category with 20.4%, the three-month category with 12.1%, the three-year category with 2.9% and the seven-year category with 1.6%, while the five-year category accounted for the remaining 0.02%. These compare to maturities of LP 9,283 billion, resulting into a nominal deficit of LP 2,221 billion over the first seven months of 2023.

Bank Audi

TREASURY BILLS

	03/08/2023	28/07/2023	30/12/2022	
3-month	3.50%	3.50%	3.50%	↔
6-month	4.00%	4.00%	4.00%	↔
1-year	4.50%	4.50%	4.50%	↔
2-year	5.00%	5.00%	5.00%	↔
3-year	5.50%	5.50%	5.50%	↔
5-year	6.00%	6.00%	6.00%	↔
10-year	-	7.00%	7.00%	
Nom. Subs. (LP billion)		90	1	
Short-term (3&6 mths)		90	-	
Medium-term (1&2 yrs)		0.4	-	
Long-term (3 yrs)		-	1	
Long-term (5 yrs)		-	-	
Long-term (10 yrs)		0		
Maturities		607	193	
Nom. Surplus/Deficit		-517	-192	

Sources: Central Bank of Lebanon, Ministry of Finance

FOREIGN EXCHANGE MARKET: MARGINAL MOVEMENTS IN LP/US\$ BLACK MARKET RATE AMID SMOOTH TRANSITION IN BDL LEADERSHIP

As the first deputy governor of the Central Bank took over as interim Chief after governor's term came to an end on July 31, 2023, and amid plans to gradually move to a managed float system where market forces determine the LP/US\$ rate without BDL's intervention, and as the currency in circulation began to dry up in the past couple of weeks, the black FX market saw this week marginal movements in the LP/US\$ exchange rate.

In details, the LP/US\$ parallel market rate fluctuated marginally over this week, hovering around LP/US\$ 89,000 on Friday against LP/US\$ 88,200-LP/US\$ 88,700 at the end of last week. This came in line with continuous FX reserves burn and a large contraction in the currency in circulation outside BDL.

In fact, latest BDL's bi-monthly balance sheet ending 31st of July 2023 showed that the Central Bank's foreign assets contracted significantly by US\$ 608 million over the second of the month, bringing liquid FX reserves down to circa US\$ 8.8 billion at end-July. This is mainly explained by halted BDL's foreign currency purchases on the black market, and continuous US dollar injection via the "Sayrafa" platform, as the total trading volume via the platform reached about US\$ 800 million during the second half of July 2023. Concomitantly, the Lebanese pound began to dry up over the second half of July 2023, as reflected by a LP 17 trillion contraction in the currency in circulation outside BDL, moving from LP 79 trillion mid-July to LP 62 trillion at the end of the month.

EXCHANGE RATES

	03/08/2023	28/07/2023	30/12/2022	
LP/US\$	15,000.00	15,000.00	1,507.50	↔
LP/£	19,006.50	19,212.00	1,813.97	↑
LP/¥	104.97	107.40	11.27	↑
LP/SF	17,111.57	17,217.63	1,628.67	↑
LP/Can\$	11,214.95	11,327.59	1,108.21	↑
LP/Euro	16,392.00	16,441.50	1,603.83	↑

Source: Bank Audi's Group Research Department

Bank Audi

AUDI INDICES FOR BSE

	03/08/2023	28/07/2023	30/12/2022	
Market Cap. Index	783.50	785.71	614.50	↓
Trading Vol. Index	56.08	75.93	96.84	↓
Price Index	164.48	164.95	129.00	↓
Change %	-0.28%	5.43%	1.30%	↓

	03/08/2023	28/07/2023	30/12/2022	
Market Cap. \$m	18,588	18,640	14,578	↓
No. of shares traded (Exc. BT)	211,860	262,531	187,711	↓
Value Traded \$000 (Exc. BT)	4,930	8,345	6,415	↓
o.w. : Solidere	4,681	8,040	6,349	↓
Banks	248	303	66	↓
Others	0	2	0	↓

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

STOCK MARKET: SHY WEEKLY CONTRACTION IN LEBANESE EQUITY PRICES

The Beirut Stock Exchange registered shy price contractions of 0.3% this week following two consecutive weeks of price gains. In details, Solidere "A" share price retreated by 0.3% to US\$ 79.75. Solidere "B" share price increased by 0.6% to US\$ 80.50, noting that Solidere "A" and "B" shares captured around 95% of total activity over this week.

As to banking stocks, BLOM's GDR price jumped by 25.0% week-on-week to reach US\$ 2.50, followed by Bank Audi's "listed" shares with +1.6% to US\$ 1.92, and Byblos Bank's "listed" shares with +1.3% to US\$ 0.76. Concurrently, Bank Audi's GDR price stood unchanged at US\$ 1.40. BEMO's "listed" share price remained stable at US\$ 1.25.

As to trading volumes, the BSE total turnover contracted by 40.9% week-on-week, moving from US\$ 8.3 million last week to US\$ 4.9 million.

BOND MARKET: EUROBOND PRICES AT 12-MONTH HIGH ON HOPES OF IMPROVEMENTS IN LEBANON'S CREDIT PROFILE

After remaining relatively stable over this year, Lebanese Eurobond prices pierced for the first time since August 2022 the 7.50 cents per US dollar level to reach 7.625 cents per US dollar on Friday compared to 6.750 cents per US dollar at the end of last week, as the market welcomed the change in BDL leadership.

Within this context, Goldman Sachs said in a recent note that it sees a chance of improvements in monetary/FX regimes following the change in BDL leadership, and highlighted that if BDL at least abandons the FX "subsidy" and minimizes interventions, this will have a number of important positive consequences for Lebanon's credit profile, of which stabilization of FX reserves would be the primary one.

Under these conditions, year-to-date bond price gains ranged between 1.88 pt and 2.25 pts across the curve.

EUROBONDS INDICATORS

	03/08/2023	28/07/2023	30/12/2022	
Total tradable size \$m	31,793	31,793	31,793	↔
o.w.: Sovereign bonds	31,314	31,314	31,314	↔
Bid price (cents per US dollar)	7.63	6.75	5.50-5.88	↑
Average Life	4.90	4.90	5.34	↔
Yield on US 5-year note	4.29%	4.18%	3.94%	↑

Source: Bank Audi's Group Research Department

Bank Audi

INTERNATIONAL MARKET INDICATORS

	04-Aug-23	28-Jul-23	31-Dec-22	Weekly change	Year-to-date change
EXCHANGE RATES					
YEN/\$	141.76	141.16	131.11	0.4%	8.1%
\$/£	1.275	1.285	1.208	-0.8%	5.5%
\$/Euro	1.101	1.102	1.071	-0.1%	2.8%
STOCK INDICES					
DOW JONES INDUSTRIAL AVERAGE	35,065.62	35,459.29	33,147.25	-1.1%	5.8%
S&P 500	4,478.03	4,582.23	3,839.50	-2.3%	16.6%
NASDAQ	13,909.24	14,316.66	10,466.48	-2.8%	32.9%
CAC 40	7,315.07	7,476.47	6,473.76	-2.2%	13.0%
Xetra Dax	15,951.86	16,469.75	13,923.59	-3.1%	14.6%
FT-SE 100	7,564.37	7,694.27	7,451.74	-1.7%	1.5%
NIKKEI 225	32,192.75	32,759.23	26,094.50	-1.7%	23.4%
COMMODITIES (in US\$)					
GOLD OUNCE	1,942.91	1,959.49	1,824.02	-0.8%	6.5%
SILVER OUNCE	23.63	24.34	23.95	-2.9%	-1.3%
BRENT CRUDE (per barrel)	86.24	84.41	83.10	2.2%	3.8%
LEADING INTEREST RATES (%)					
Term SOFR 1-month	5.32	5.32	4.36	0.00	0.96
US Prime Rate	8.50	8.50	7.50	0.00	1.00
US Discount Rate	5.50	5.50	4.50	0.00	1.00
US 10-year Bond	4.03	3.95	3.87	0.08	0.16

Sources: Bloomberg, Bank Audi's Group Research Department

DISCLAIMER

The content of this publication is provided as general information only and should not be taken as an advice to invest or engage in any form of financial or commercial activity. Any action that you may take as a result of information in this publication remains your sole responsibility. None of the materials herein constitute offers or solicitations to purchase or sell securities, your investment decisions should not be made based upon the information herein.

Although Bank Audi sal considers the content of this publication reliable, it shall have no liability for its content and makes no warranty, representation or guarantee as to its accuracy or completeness.