

# The Lebanon Weekly Monitor

## ▶ ECONOMY

### p.2 ▶ **Tourism activity soaring at a record high level in the first eleven months of 2009**

Tourism activity in Lebanon was yet again vigorous in November 2009, leaving overall tourism activity in Lebanon in the first eleven months of 2009 soaring at record high levels, noting that this trend has dominated tourism activity in Lebanon since the beginning of the year.

Also in this issue:

- p.2 ▶ **Export activity continues its ascend in November 2009**
- p.3 ▶ **Consumer prices up by 2.98% on average in the first eleven months of 2009**
- p.3 ▶ **Airport bustles with activity in the first eleven months of the year**

## ▶ SURVEYS

### p.4 ▶ **Lebanon 4th in the MENA region on the Quality of Life Index**

The annual Quality of Life Index, generated by International Living magazine at the beginning of each year, ranked Lebanon 4th out of 18 Middle East and North Africa (MENA) countries in 2010 and 112th among 194 countries.

## ▶ CORPORATE NEWS

### p.5 ▶ **ADIH announces exit from Beirut Gate Fund**

Abu Dhabi Investment House (ADIH) announced this week its exit from the Beirut Gate Fund, which was used for the purchase, master-planning and full entitlements of eight plots of land as a mixed-use development within the Solidere area in downtown Beirut.

Also in this issue:

- p.5 ▶ **Etihad Airways to increase services to Beirut**
- p.5 ▶ **Balance sheet of financial institutions grows by a yearly 19.8% to US\$ 992.1 million at end-October 2009**

## ▶ MARKETS IN BRIEF

### p.6 ▶ **A bright year for Lebanese capital markets in view of heavy demand**

The year 2009 was an outstanding year for all Lebanese capital markets. On the foreign exchange market, the wave of conversions from FC holdings to LP holdings persisted during this year, with the volume of conversions estimated at US\$ 10 billion, hitting a record high level and exceeding last year's volume of conversions that amounted to US\$ 8 billion. The prevailing favorable activity on the FX market allowed the Central Bank to reinforce its foreign assets to hit a new historical high level of US\$ 28 billion. Within this context, the local currency liquidity remained overabundant on the money market in 2009 and the overnight rate was cut twice to reach a bottom low level of 3.00%. As to the Treasury bills market, investors showed continuous interest to channel their LP funds towards the Tbs market, especially during the second half of the year 2009 when the Central Bank suspended the five-year Certificates of Deposits early-July, with total subscriptions recording a nominal surplus of LP 6,406 billion. In parallel, the average yields were reduced across the board to reach historical low levels. On the equity market, the BSE price index surged by 27% in 2009 under the impact of improving global equity markets in 2009 and stable local security and political conditions. However, the turnover ratio was limited to 7.9% versus 17.9% in the previous year. The Eurobond market performed very well in 2009 due to heavy local and foreign demand with the average spread shrinking by 437 basis points to reach 288 basis points, its lowest level in around three years.

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Week  
**1**  
Dec 28 - Jan 3  
**2010**

## ► ECONOMY

### **Tourism activity soaring at a record high level in the first eleven months of 2009**

Tourism activity in Lebanon was yet again vigorous in November 2009, leaving overall tourism activity in Lebanon in the first eleven months of 2009 soaring at record high levels, noting that this trend has dominated tourism activity in Lebanon since the beginning of the year.

The number of tourists visiting Lebanon during the month of November 2009 was at 138,940, as per figures released by the Ministry of Tourism. This number is 53.2% higher than the number of tourists visiting Lebanon during the same month of the previous year. This year-year increase is along the same line of the increases witnessed during the summer months of 2009 and indicates that tourism activity was indeed buoyant during the eleventh months of the year, bearing in mind that activity in November 2008 was already flourishing, following the Doha agreement.

Throughout 2009 so far, all eleven months saw a trend of vigorous tourism activity, marked by year-on-year increases. This has led to a significant surge in overall tourism activity throughout the year. The number of tourists visiting Lebanon during the first eleven months of 2009 went up by a yearly 43.5% to reach 1,713,430 visitors. In fact, the number of tourists in the first eleven months of 2009 recorded a peak relative to the same period of previous years. Here, it is worth noting that recently the Ministry of Tourism reiterated its expectations that the number of tourists would reach 2 million by the end of 2009, as the holidays of December would probably attract some 300,000 tourists.

Along the same line, figures released by Global Refund, the firm that reimburses VAT to tourists at the Lebanese border points, reveal that tax-free purchases reported an increase of 13% in the first eleven months of 2009 relative to the same months of 2008, mirroring the increase in tourism activity in the country. It is worth noting that this is the same increase in tax-free spending witnessed in the first ten months of the year, meaning that in November 2009, tax-free spending was almost equal to that of November 2008.

One should note here that in the first eleven months of 2009, the increase in tourism activity in Lebanon has been higher than the increase in the spending of those tourists. However, this does not say anything about tourism in Lebanon; rather it has implications on the spending power of tourists visiting Lebanon. Indeed, the lower growth of tax-free purchases relative to the growth in the number of tourists reflects a possible retreat in the average spending per tourist, probably as a result of the adverse effects generated by the global financial crisis.

The distribution of expenditures of tourists in Lebanon by country of origin shows that spending of nationals from

Saudi Arabia accounted for the majority of overall expenditures of tourists in Lebanon during the first eleven months of 2009, as it comprised 21% of the total, followed by spending of nationals from Kuwait and the UAE with the former constituting 12% and latter accounting for 11%, that of Egyptian citizens with 7%, and that of Jordanian citizens with 7%.

As a matter of fact, almost all Arab citizens registered positive year-on-year variations in their spending in the first eleven months of 2009, with the highest increase being that of citizens from Syria, as it was at 61%, followed by that of citizens from Egypt, which reached 40%, spending of citizens from Saudi Arabia, which rose by 34%, spending of Kuwaiti citizens with a 15% increase, expenditures of Qatari citizens with a 9% year-on-year rise, and spending of Jordanian nationals with a 7% rise. On the other hand, spending of nationals from the UAE dropped by a mere 2%. Also, spending of non-Arabs saw declines in the said period, with spending of French citizens decreasing the highest, by 18%. Again, this decline is correlated with the negative repercussions of the global financial crisis.

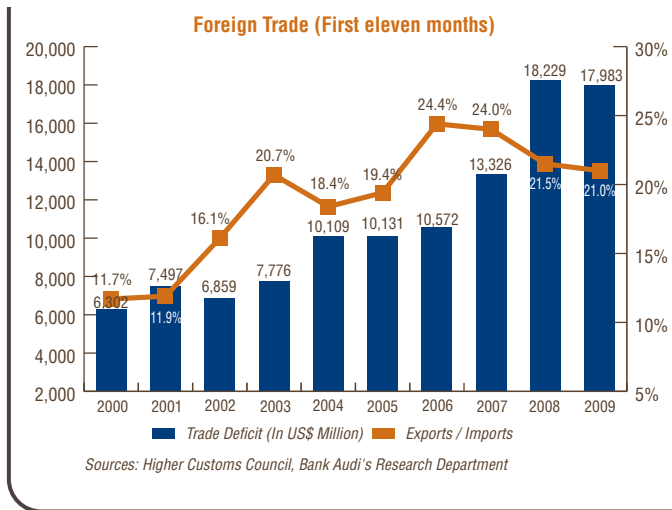
### **Export activity continues its ascend in November 2009**

Figures released by the Higher Customs Council show that the month of November 2009 saw a continuation of the revival in export activity that commenced in October 2009, following a quarter of consecutive year-on-year drops in export activity. In other words, demand for Lebanese products grew stronger in October and November 2009, as Arab countries, the major importers of Lebanese products, began to see their economies recover from the global crisis.

Indeed, export activity had been on the rise up until the end of the first half of 2009, nonetheless in the third quarter of the year, it registered a year-on-year plummet of 25.3%, thereby leading to a year-on-year decline of 7.1% in total exports in the first nine months of 2009. However, in October 2009, export activity saw a revival, as the value of exports went up by 28.7% year-on-year, followed by a year-on-year rise of 2.7% during November 2009, thereby resulting in a contraction of the overall year-to-date decline in exports to 3.3% in the first eleven months of the year.

Imports amounted to US\$ 14,861 million, down by a yearly 0.9%. Still, such a nominal increase in import activity in the first eleven months of the year comes in spite the fact that oil prices were 42% than they were in the same period of 2008, and the exchange rate of the Euro against the Dollar is 6.8% lower than it was in the first eleven months of 2008, noting that oil imports constitute 20% of total imports, while imports from the Euro area account for around 30% of total imports. Thus, if one were to account for the aforesaid two declines, the real value of imports would record a 16% escalation.

In the first eleven months of 2009, the fact that the decline in exports significantly surpassed the decline in imports resulted in a contraction in the growth of the trade deficit to 0.3%, bearing in mind that the trade deficit expanded by 44.0% in the same period of 2008. The trade deficit reached US\$ 11,739 million in the first eleven months of 2009. Furthermore, the export-to-import coverage ratio regressed from 21.5% in the first eleven months of 2008 to 21.0% in the same period of 2009.



### Consumer prices up by 2.98% on average in the first eleven months of 2009

Figures released by the Consultation and Research Institute (CRI), indicate that average inflation in the first eleven months of 2009 was at 2.98%, bearing in mind that such an average reached around 10.5% at year-end 2008. Certainly, this reflects a drop of the Lebanese Consumer Price Index (CPI) in the first eleven months of the year, similar to the trend of global commodity prices.

The variation in the CPI between November 2009 and December 2008 was at 5.48%, up from a change of 4.06% registered at end-October 2009 relative to end-2008, as during the month of November 2009, inflation in Lebanon edged slightly upwards, as mirrored by the 1.36% increase in the CPI at end-November 2009 relative to end-October 2009. As to the year-on-year progression of the CPI, i.e. its value at end-November 2009 relative to end-November 2008, it was at a mere 4.49%.

The increase in the CPI witnessed during the month of November 2009 was resulted by a rise in the prices of the following commodities and services: 0.81% for food and beverages, 0.15% for durable consumer goods, 0.04% for healthcare, 0.92% for transport and telecommunications, 7.43% for education, 1.18% for recreation, and 1.29% for other goods and services which include personal care and Jewelry. Indeed, the said movements dominated the market and the drop of housing prices by 1.08% did not compen-

sate the series of increase shown during this month.

Education prices, which had the highest increase in November 2009, were affected by tuition fees as well as prices of educational books and supplies progressing respectively by 9.61% and 6.36%. Regarding the prices of other goods and services, they were impacted by a 3.73% rise in jewelry prices and 0.29% rise for personal care. Recreation prices movement was triggered solely by prices of reading materials and photography edging upwards by 6.75%. Transportation and telecommunication prices ascended only due to a 1.01% rise in transport prices. Durable and consumer goods were impacted by prices of miscellaneous household products, in addition to cleaning products and services correspondingly rising by 1.70% and 0.19%. With respect to food and beverages, food and tobacco products were behind the increase, each progressing by 0.88% and 0.13% in that order. As to nonalcoholic beverages, they went down by a slight 0.08%. Healthcare posted a slight increase due to medications and medical accessories costs weakening by 9.12% which relatively counterbalanced the 5.88% rise in health insurance, the 8.73% rise in prices of inpatient services and the 0.19% rise in prices of outpatient services.

On the other hand, household energy prices, which diminished by 1.60%, were the only driver behind the decrease of housing prices.

### Airport bustles with activity in the first eleven months of the year

Figures released by the Harriri International Airport (HIA) reveal that in the first eleven months of 2009, the airport bustled with commotion, as it saw a peak level of activity when compared to the same period of previous years, on account of large the number of Lebanese using the airport as well as the large number of tourists visiting the country.

Indeed, in the first eleven months of the year, activity flourished leading to record high levels in the number of passengers and planes at the airport. Airline traffic saw a yearly rise of 28.4% in the first eleven months of the year, while passengers at the airport increased by 24.6% in the said period. Total planes using the airport in the first eleven months of 2009 amounted to 52,162, while passengers at the airport totaled 4,515,201.

In details, arrivals reached 2,251,219 passengers in the first eleven months of the year, rising by 28.4% relative to the same period of 2008, whereas departures were at 2,263,982 up by 23.3%, compared to 2008's first eleven months. Lastly, transit passengers reached 29,689 passengers in the first eleven months of the year, down by 30.9% relative to the same period of 2008.

Week  
**1**  
Dec 28 - Jan 3  
**2010**

## ► SURVEYS

### Lebanon 4th in the MENA region on the Quality of Life Index

The annual Quality of Life Index, generated by International Living magazine at the beginning of each year, ranked Lebanon 4th out of 18 Middle East and North Africa (MENA) countries in 2010 and 112th among 194 countries. Lebanon's overall score was at 54.3 in the 2010 Index, rising slightly from a score of 54.0 points in the previous year. It is worth mentioning that this survey is conducted at the beginning of each year, and therefore represents expectations for the quality of life for a certain year based on previous events.

To produce this annual Index, International Living considers, for each of these countries, nine categories: Cost of Living, Culture and Leisure, Economy, Environment, Freedom, Health, Infrastructure, Safety and Risk, and Climate. For each category, the country receives a score out of 100, with a weight of 10% allocated for each category, except for cost of living, and economy, which have equal weights of 15%.

In the MENA region, Lebanon outperformed Bahrain (53.5 points), Syria (53.5 points), Qatar (52.4 points), Egypt (51.5 points), and the UAE (50.45 points). On the other hand, it lagged after Morocco (54.45 points), Kuwait (54.47 points), and Jordan (55.05 points). The quality of life in Lebanon is superior to the average quality of life in the MENA region, as the country's score well exceeded the average regional score of 48.2. Overall, a slight yearly improvement is noticeable in the average quality of life of the MENA region, with the average score rising by 1.7% from 47.4 points in 2009.

In details, Lebanon scored 68 in the cost of living indicator, as compared to 74 in the previous survey. One should note that, in this category, a drop in the score indicates a rise in the cost of living and overall prices in the country. This means that in 2010, International living expects a rise in the overall cost of living in Lebanon, in line with the projected rise in the commodity prices worldwide, as countries begin to recover from repercussions of the global crisis. The cost of living also incorporates each country's income tax rates. It is worth noting that Lebanon ranked well when it came to this indicator, as it came in the third place regionally and in the 26th spot globally. Lebanon's regional ranking in this category remained unchanged, while its global ranking improved from the 28th spot last year. Also, its score was higher than the MENA and global averages of 56.6 and 56.9, respectively.

To calculate the score on the culture and leisure indicator, the survey looks at literacy rate, newspaper circulation per 1,000 people, primary and secondary school enrollment ratios, and the number of people per museum. Lebanon's score improved slightly from 53 in the 2009 index to 56 in the current index. Still, its score surpassed regional and

global averages of 47.8 and 49.4, correspondingly.

Furthermore, the survey considers interest rates, GDP, GDP growth rate, GDP per capita, the inflation rate, and GNP per capita to determine each country's Economy score. In this category, Lebanon's score recorded 50 in 2010, rising by a significant 66.7% from a score of 30 in 2009. The country's score is somewhat lower than the MENA average of 53.2 points, nonetheless it slightly surpassed the global average of 49.7 points. Within this context, one should note that the upsurge in Lebanon's score in this category surpasses the yearly increases in the average MENA and global scores, which were at 54.7% and 47.2%, respectively. This means that Lebanon's economic recovery in 2010 is expected to be relatively more solid than other countries in the region and the rest of the world on average, bearing in mind that Lebanon's economy was comparably not that affected by the crisis to begin with.

In the category for environment, the survey looks at population density per square kilometer, population growth rate, greenhouse emissions per capita, and the percentage of total land that is protected. Lebanon scored 65 in this category, up from 63 in the previous survey, while its score exceeded the MENA average of 54.7 and was equal to the global average. For the freedom category, Freedom House's 2009 survey is the main source for these scores, with an emphasis on a citizen's political rights and civil liberties. Lebanon's score remained unchanged at 42, again surpassing the MENA average of 24.5, but falling below the global average of 62.7.

In the health category, the study looks at the infant mortality rate, life expectancy, and public health expenditure as a percentage of a country's GDP. Lebanon's score improved from 74 in 2009 to a current 85, which is above the MENA and global averages of 60.0 and 58.3. To calculate a country's Infrastructure score, the survey observes the number of airports, motor vehicles, telephones, Internet service providers, and cell phones per capita. Lebanon's score regressed 41 in 2009 to 36 in 2010, and was below the regional and global averages of 39.7, and 45.9, respectively.

Finally, for the category of safety and risk, the study uses the U.S. Department of State's hardship differentials and danger allowances, which are based on extraordinarily difficult, notably unhealthy, or dangerous living conditions. Lebanon's score remained constant at 21 in 2010. Its score is well below the MENA average of 53.6 and global average of 75.5. When deciding on a score for each country's climate, the survey looks at its average annual rainfall and average temperature, and considers its risk for natural disasters. Lebanon scored a high 61 in this category, dropping significantly from 91 a year ago, but still considerably surpassing the regional average of 37.0, while scoring equally as the global average.

## ► CORPORATE NEWS

### ADIH announces exit from Beirut Gate Fund

Abu Dhabi Investment House (ADIH) announced this week its exit from the Beirut Gate Fund, which was used for the purchase, master-planning and full entitlements of eight plots of land as a mixed-use development within the Solidere area in downtown Beirut.

According to ADIH officials, this exit reiterates the company's ability to deliver as it promised, particularly within the context of a tough global economic climate.

Launched in early 2006, the Beirut Gate Fund received significant demand from local and regional investors within the context of overall healthy demand in the real estate and tourism sectors, according to company releases. The project comprised eight plots of land with a total area of 21,448 square meters and a built-up area of 178,500 square meters, offering residential, commercial and retail opportunities.

In parallel, ADIH announced the on-time partial exit of its Sharia compliant Porta Reef Fund, which funded the purchase, development and full entitlements of three 10-floor residential towers located on the Kingdom of Bahrain's Reef Island. Porta Reef would actually be the first completed project on Reef Island with expected handover of units early in 2010, according to company officials. The US\$ 34 million Porta Reef Fund was incepted in 2007 to fund the US\$ 90 million Porta Reef development.

Abu Dhabi Investment House was established in 2005 by a group of bankers, businessmen and investors from the Gulf region. ADIH offers a broad spectrum of wealth management and investment opportunities and advice.

### Etihad Airways to increase services to Beirut

Etihad Airways, the national airline of the United Arab Emirates, said it would increase its Abu Dhabi-Beirut services from double daily to 18 flights per week starting January 1, 2010.

Etihad Airways services to Beirut, which were launched in November 2003, have provided high volumes of traffic into Abu Dhabi as well as transit traffic to many Asian destinations. The additional flights would offer passengers increased connections to some of Etihad Airways' key destinations.

According to Etihad Airways' chief executive officer (CEO), the Beirut services have been very successful, with average load factors of between 80% and 90% on both inbound and outbound flights.

The company's CEO also said that in addition to the strong

demand for flights from Lebanese nationals who work in Abu Dhabi and other Emirates, there is a strengthening in corporate and leisure traffic across the company's network. Demand for flights between Beirut and Colombo, and on Etihad's services to Sydney, Melbourne, Manila and Thailand, has been particularly strong, and Etihad Airways' additional services would help meet such growing demand, according to the same source.

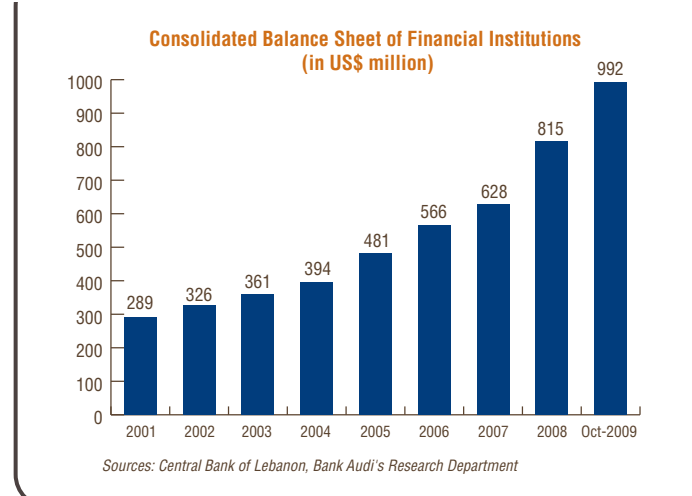
### Balance sheet of financial institutions grows by a yearly 19.8% to US\$ 992.1 million at end-October 2009

Central Bank statistics show that the consolidated balance sheet of financial institutions in Lebanon reached LP 1,495.5 billion, or US\$ 992.1 million, at end-October 2009, up by 19.8% from US\$ 828.3 million at end-October 2008.

Liabilities to the private sector went up by 11.5%, from US\$ 165.2 million at end-October 2008 to US\$ 184.2 million at end-October 2009. On the other hand, liabilities to the financial sector increased by 3.5%, from US\$ 360.8 million at end-October 2008 to US\$ 373.5 million at end-October 2009. Further, the aggregate equity capital of financial institutions reached US\$ 254.0 million at end-October 2009, growing by 11.8% from US\$ 227.1 million a year earlier.

On the assets' side, financial institutions' cash and banks item reached US\$ 297.8 million at end-October 2009, up by 13.1% from US\$ 263.4 million at end-October 2008. Claims on the private sector amounted to US\$ 455.1 million at end-October 2009, up by 9.3% from US\$ 416.6 million a year earlier. Claims on the public sector stood at US\$ 138.7 million, showing an increase of 12.9% from US\$ 122.8 million at end-October 2008.

Week  
**1**  
Dec 28 - Jan 3  
**2010**



## ► CAPITAL MARKETS

### Money Market: Overnight rate reduced twice in 2009

The money market was characterized by overabundant local currency liquidity during the year 2009, within the context of continuous FC-to-LP conversions on the foreign exchange market, which called the Central Bank to lower the overnight rate twice in 2009 in alignment with regular reductions in interest rates on the Tbs market. As such, the overnight rate retreated from 3.50% at end-2008 to 3.25% mid-August 2009, reaching a bottom low level of 3.00% in October 2009. The five-year Certificates of Deposits issued by the Central Bank contributed to absorbing the excess LP liquidity on the money market during the first half of the year 2009, noting that this category captured market players' attention before it was suspended mid-year. This was reflected by an impressive surge in outstanding CDs portfolio, with the latter more than doubling, moving from LP 9,035 billion at end-2008 to LP 20,126 billion at end-October 2009, according to the latest figures released by the Association of Banks in Lebanon.

In view of the strong appetite for the Lebanese Pound during the year 2009, the LP money supply (M2) expanded by around LP 14 thousand billion or by 36% year-on-year, mainly due to the impressive increase in LP saving deposits. In addition, the money supply in its broader sense (M4) widened by around LP 21 thousand billion or by 19% year-on-year.

Interest rates	31/12/09	24/12/09	26/12/08
Overnight rate	3.00%	3.00%	3.50% ↔
7 days rate	3.10%	3.10%	4.50% ↔
1 month rate	3.52%	3.52%	4.17% ↔
45-day CDs	3.77%	3.77%	4.40% ↔
60-day CDs	4.03%	4.03%	4.89% ↔

### Treasury Bills Market: Average yields reach historical low levels

The overabundance of local currency liquidity on the money market translated into a relevant interest in the Treasury bills market during the year 2009, especially after the suspension of five-year CDs early-July 2009, and the resumption of five-year Tbs by the Ministry of Finance. Total subscriptions amounted to LP 18,487 billion in 2009, almost similar to the volume of LP 18,743 billion registered in 2008, noting that total subscriptions in 2009 could have been higher should no allocations on subscriptions be imposed on the primary market. The three-year and five-year categories captured 60% of total subscriptions in 2009, while the three-month and six-month categories accounted for 18% of the total, and the one-year and two-year categories accounted for 22% of the total.

In parallel to these subscriptions, there were maturities of LP 12,081 billion, which resulted in a nominal surplus of LP 6,406 billion in 2009. Interest rates pursued a downward trajectory in 2009, hitting record low levels, given the market players' continuous interest in channeling their LP funds to LP debt instruments. In details, the average yield on the three-month category retreated from 5.10% at end-2008 to 4.55% at end-2009, or by 55 basis points, while the average yield on the six-month category dropped by 138 basis points, from 7.10% at end-2008 to 5.72% at end-2009. In addition, the average yield on the one-year category tumbled by 185 basis points, from 7.58% at end-2008 to 5.73% at end-2009. The two-year category reported the highest drop in interest rates of 194 basis points, from 8.26% at end-2008 to 6.32% at end-2009. The average yield on the three-year category fell by 190 basis points, from 9.00% at end-2008 to 7.10% at end-2009. Finally, since the launching of the five-year category early-July 2009, its average yield dropped by 126 basis points, from 9.00% to 7.74% at end-2009.

On the other hand, the secondary Treasury bills market witnessed relevant demand for long-term maturities during the year 2009 that was mainly triggered by tiny allocations on the primary market, while the offer remained shy.

Treasury bills	31/12/09	24/12/09	26/12/08
3-month	4.55%	4.55%	5.10% ↔
6-month	5.72%	5.72%	7.10% ↔
1-year	5.73%	5.81%	7.58% ↓
2-year	6.32%	6.40%	8.26% ↓
3-year	7.10%	7.20%	9.00% ↓
5-year	7.74%	7.74%	- ↔
Nom. Subs. (LP billion)		344	242
Short-term (3&6 mths)		105	80
Medium-term (1&2 yrs)		-	13
Long-term (3 yrs)		-	149
Long-term (5 yrs)		239	-
Maturities		39	157
Nom. Surplus/Deficit		305	85

### Foreign Exchange Market: US\$ 10 billion FC-to-LP conversions in 2009

The foreign exchange market saw continuous strong flow of FC-to-LP conversions during the year 2009, due to the growing depositors' confidence in stable local security and political conditions, the high coverage of the Central Bank's reserves, in addition to the relatively attractive interest rates on LP deposits relative to other international benchmark yields. The volume of conversions in favor of the Lebanese Pound is estimated at US\$ 10 billion in 2009, exceeding the previous year's volume of US\$ 8 billion.

Within this context, the Central Bank kept on intervening as a buyer of the green currency surpluses at the lower end of its intervention bracket (1,501.00), which enabled it to raise its foreign assets from US\$ 19.7 billion at end-2008 to reach a record high level of US\$ 28 billion at end-2009, up by US\$ 8.3 billion. Accordingly, the Central Bank's foreign assets covered 84% of LP money supply at end-2009, with this coverage ratio surging to 115% when accounting for gold reserves estimated at US\$ 10 billion at end-2009 due to the hike in gold prices in international markets. Moreover, the Central Bank's foreign assets covered 20.8 months of imports. These coverage ratios mirror the solid local monetary conditions and the Central Bank's ability to defend the currency peg and to meet any emerging demand for foreign currencies.

Exchange rates	31/12/09	24/12/09	26/12/08
LP/US\$	1,507.5	1,507.5	1,507.5 ↔
LP/£	2,389.24	2,412.00	2,221.60 ↑
LP/¥	16.34	16.52	16.66 ↑
LP/SF	1,451.33	1,458.07	1,401.80 ↑
LP/Can\$	1,436.12	1,440.93	1,236.37 ↑
LP/Euro	2,159.95	2,171.40	2,120.00 ↑

### Stock Market: 27% increase in the BSE price index in 2009

The Beirut Stock Exchange saw a rise in its price index of 27% during the year 2009, which was largely attributed to the successful completion of the parliamentary elections in early-June 2009, in addition to the improvement in global equity markets since the second quarter of the year. However, the hike in prices was not accompanied by a similar rise in volumes. In fact, the total trading value on the BSE amounted to US\$ 943 million in 2009 versus US\$ 1.7 billion in 2008, down by 43%. Solidere shares captured 76% of the total trading value, while the banking shares accounted for 23% of activity. The average daily trading volume index fell from 335.40 in 2008 to 168.14 in 2009.

Audi Indices for BSE	31/12/09	24/12/09	26/12/08
<i>22/1/96=100</i>			
Market Cap. Index	505.10	500.53	392.07 ↑
Trading Vol. Index	115.58	134.48	50.43 ↓
Price Index	144.04	141.74	113.40 ↑
Change %	0.91%	1.22%	-1.71% ↓
Market Cap. \$m	11,983	11,875	9,301 ↑
No. of shares traded	248,012	391,383	372,788 ↓
Value Traded \$000	6,434	12,771	4,550 ↓
o.w. : Solidere	2,055	5,525	3,182 ↓
Banks	4,375	7,003	1,329 ↓
Others	4	244	39 ↓

Within the context of the rise in prices, the market capitalization surged from US\$ 9,278 million in 2008 to US\$ 11,983 million in 2009. In view of the drop in the total trading value year-on-year and the surge in market capitalization, the turnover ratio tumbled from 17.9% at end-2008 to 7.9% at end-2009, which reflects the shy activity on the BSE that generally suffers from low levels of liquidity and efficiency.

Finally, it is worth underlining that the BSE performed relatively better than other Arabian markets that reported an 18% increase in 2009, as per MSCI Arabian Markets Index.

### Bond Market: Important decline in the average spread of 437 basis points

The Eurobond market reported an outstanding performance during the year 2009, fuelled by a strong local and foreign demand, and benefiting from stable local political and security conditions, the attractiveness of Lebanese yields as compared to benchmark yields, and the upgrading of Lebanon's sovereign ratings by international rating agencies, namely Moody's and Standard and Poor's. As such, the average spread shrank by 437 basis points in 2009, falling from a high level of 727 basis points at end-2008 to 290 basis points at end-2009, which is its lowest level in almost three-years. The important drop in the average spread resulted from a 338 basis points decline in Lebanese yields and a moderate rise in benchmark yields.

It is worth mentioning that the Ministry of Finance concluded in March 2009 a new swap operation on government Eurobonds for an amount of US\$ 2.3 billion. In addition, it concluded successfully a new sovereign bond issue amounting to US\$ 500 million amid a strong demand from foreign companies. The new issue was five times oversubscribed and foreign investors' participation reached 27%. Subsequently, the total bond portfolio rose from US\$ 17.2 billion at end-2008 to US\$ 17.7 billion at end-2009, representing 54% of Lebanon's GDP.

Eurobonds Indicators	31/12/09	24/12/09	26/12/08
Total tradable size \$m	17,704	17,708	17,173 ↓
o.w.: Sovereign bonds	17,134	17,138	16,603 ↓
Average Yield	5.31%	5.31%	8.88% ↔
Average Spread	290	296	755 ↓
Average Life	4.57	4.58	4.65 ↓
Yield on US 5-year note	2.62%	2.51%	1.32% ↑

Week  
**1**  
Dec 28 - Jan 3  
**2010**

**ARAB STOCK MARKETS INDICES:**

	1-Jan-10	25-Dec-09	31-Dec-08	Weekly change	End-year-to-date change
Lebanon	144.0	142.7	113.1	0.9%	27.3%
Jordan	149.9	149.5	162.5	0.3%	-7.7%
Egypt	785.5	805.6	591.7	-2.5%	32.8%
Saudi Arabia	389.3	395.6	291.5	-1.6%	33.6%
Qatar	608.3	616.2	608.6	-1.3%	-0.1%
UAE	228.8	223.1	171.9	2.5%	33.1%
Oman	839.0	814.7	700.6	3.0%	19.8%
Bahrain	332.5	327.3	517.0	1.6%	-35.7%
Kuwait	557.5	559.3	620.4	-0.3%	-10.1%
Morocco	416.2	411.8	453.6	1.1%	-8.3%
Tunisia	1,183.7	1,170.9	914.4	1.1%	29.5%
Arabian Markets	470.8	474.8	401.4	-0.9%	17.3%

Sources: MSCI Barra, Bank Audi's Research Department

**INTERNATIONAL MARKET INDICATORS:**

	1-Jan-10	25-Dec-09	31-Dec-08	Weekly change	End-year-to-date change
<b>EXCHANGE RATES</b>					
YEN/\$	92.26	91.72	90.92	0.6%	0.9%
\$/£	1.585	1.595	1.452	-0.6%	9.8%
\$/Euro	1.433	1.438	1.395	-0.3%	3.1%
<b>STOCK INDICES</b>					
DOW JONES INDUSTRIAL AVERAGE	10,428.05	10,520.10	8,776.39	-0.9%	19.9%
S&P 500	1,115.10	1,126.48	903.25	-1.0%	24.7%
NASDAQ	2,269.15	2,285.69	1,577.03	-0.7%	44.9%
CAC 40	3,936.33	3,912.73	3,217.97	0.6%	21.6%
Xetra Dax	5,957.43	5,957.44	4,810.20	0.0%	23.9%
FT-SE 100	5,412.88	5,402.41	4,434.20	0.2%	21.8%
NIKKEI 225	10,546.44	10,494.71	8,859.56	0.5%	18.5%
<b>COMMODITIES</b>					
GOLD OUNCE	1,096.35	1,104.00	878.20	-0.7%	25.7%
SILVER OUNCE	16.84	17.50	11.30	-3.8%	54.9%
BRENT CRUDE (barrel)	77.66	75.14	39.83	3.4%	88.7%
<b>LEADING INTEREST RATES (%)</b>					
1-month Libor	0.23	0.23	0.45	0.00	-0.22
US Prime Rate	3.25	3.25	3.25	0.00	0.00
US Discount Rate	0.50	0.50	0.50	0.00	0.00
US 10-year Bond	3.84	3.81	2.22	0.03	1.61

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