

## ► ECONOMY

- p.2 ► **IIF forecasts GCC's real GDP growth at 4.4% in 2010 and 4.7% in 2011**

A recent study released by the Institute of International Finance (IIF) indicated that the GCC countries are returning to solid growth, supported by higher oil prices.

**Also in this issue:**

- p.2 ► **GCC countries shielded from Greek crisis as per Crédit Agricole**  
p.2 ► **Gulf countries' GDP expected to reach US\$ 1.5 trillion in 2015 as per NCB Capital**  
p.3 ► **Barclays Capital sees Morocco resilient through the global financial crisis**  
p.3 ► **EIU forecasts Tunisia's real GDP growth at 3.9% in 2010**

## ► SURVEYS

- p.4 ► **Sharm El Shaikh tops Middle Eastern cities in terms of hotel occupancy in the first two months of 2010 as per Ernst and Young**

The hotel benchmark survey conducted by Ernst & Young indicated that Sharm El Shaikh ranked first in hotel occupancy among Middle Eastern cities, at 84% in the first two months of 2010.

**Also in this issue:**

- p.4 ► **Oliver Wyman/Zogby International highlights rising business confidence in GCC**

## ► CORPORATE NEWS

- p.5 ► **Shell and PetroChina sign exploration and production sharing agreement with Qatar Petroleum**

Qatar Petroleum, on behalf of the government of Qatar, signed a 30-year exploration and production sharing agreement with Shell and PetroChina Company Limited.

**Also in this issue:**

- p.5 ► **Drake & Scull International Qatar wins QR 139 million contract**  
p.5 ► **Bahrain's Unicorn Investment Bank and Standard Chartered win US\$ 6 billion sukuk bid**  
p.5 ► **Qatar Telecom partners with Virgin Mobile to establish an operator in Qatar**

## ► MARKETS IN BRIEF

- p.6 ► **Eurozone related concerns continue to weigh over Middle East capital markets throughout the week**

Middle East capital markets continued to be impacted by investor concerns over Greece's debt issues and more generally debt-laden Eurozone sovereigns' longer-term growth prospects. The European Union-IMF package announced last weekend, which was initially perceived rather favorably, seemingly failed to reassure investors across the globe, with austerity measures announced by some Eurozone countries casting doubt over Europe's growth prospects. Such external factors reigned over the region's bond markets in spite of some positive developments such as S&P's Abu Dhabi GREs rating affirmation and Nakheel's bond repayment on schedule. Consequently, bond prices across Middle Eastern markets witnessed both upward and downward fluctuations this week, in spite of an aggregated 19 basis points drop in the Audi compiled weighted average Middle East bond yield relative to the previous trading week, which had witnessed selloffs and rises in yields on European sovereign debt related fears. Arabian equity markets posted a 1.0% decrease in prices week-on-week as per MSCI data, on the back of a decrease in oil prices as worries over Greece's debt and the outlook of Eurozone economies and their future energy demand weighed on investor sentiment.

The MENA Weekly Monitor can be accessed via Internet at the following web address: <http://www.banqueaudi.com>

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## ► ECONOMY

### IIF forecasts GCC's real GDP growth at 4.4% in 2010 and 4.7% in 2011

A recent study released by the Institute of International Finance (IIF) indicated that the countries of the Gulf Cooperation Council (GCC) are returning to solid growth, underpinned by higher oil prices that are supporting production and exports, robust government spending, and some normalization of global trade and capital flows. Overall, the institute projected real GDP to expand by 4.4% in 2010 and 4.7% in 2011, as compared with 0.3% growth in 2008.

Furthermore, the study noted that over the medium term, growth prospects would be further enhanced by deeper structural reforms, more urgent in the crisis-affected jurisdictions, including the rehabilitation of banks' balance sheets, restructuring of the nonbanking financial sector, and tangible improvements in corporate governance.

Inflation is likely to remain contained as large output gaps and further decline in rents (an important component of the CPI) persist. The consolidated current account surplus is projected to widen from US\$ 47 billion in 2009 to US\$ 128 billion in 2010 and US\$ 163 billion in 2011 due mainly to higher projected oil prices and modest increases in production of oil. As a result, the region's net foreign assets position will rise to US\$ 1.2 trillion by the end of this year and US\$ 1.3 trillion by end-2011 (equivalent to 122% of GDP).

As to the region's financial sector, the IIF noted that it is well capitalized, however a further rise in NPLs and the need for higher provisioning suggest that banks' balance sheets are likely to remain constrained. Development of local debt markets could partly offset this constraint and help fill the funding gaps, which recently widened as a result of a more difficult global funding environment.

#### GCC: Financial Soundness Indicators (In percent)

	2006	2007	2008	2009e
<b>Nonperforming Loans (NPLs) to Total Loans</b>				
Bahrain	4.8	2.3	2.3	6.2
Kuwait	3.9	3.2	3.1	6.4
Oman	4.9	3.2	2.1	2.9
Qatar	2.2	1.5	1.2	2.0
Saudi Arabia	2.0	2.1	1.4	3.5
UAE	6.3	2.9	2.5	4.3
<b>Provisions to NPLs</b>				
Bahrain	68.5	74.0	84.0	88.0
Kuwait	95.8	92.0	84.7	65.0
Oman	109.6	111.8	127.3	113.8
Qatar	94.0	90.7	83.2	95.0
Saudi Arabia	182.3	142.9	153.8	87.0
UAE	98.2	100.0	103.0	79.0

Sources: IIF, Bank Audi's Research Department

### GCC countries shielded from Greek crisis as per Crédit Agricole

According to a recent study issued by Crédit Agricole, oil producing countries within the Gulf Cooperation Council (GCC) seem to be more insulated from Greece's financial troubles than other Arab countries as their banking sector remains well capitalized to deal with any exposure. Crédit Agricole also mentioned that the crisis would marginally affect the tourism sector in Dubai, one of the region's most attractive destinations for European travelers, on the grounds it could offer lower prices as incentives.

Still, the institution warned of a sharp decrease in oil prices which would impede growth in the GCC as it would push the Organization of the Petroleum Exporting Countries (OPEC) to cut output and this would weigh down on economic expansion in the region. GCC equity markets could be impacted by the crisis if Greece's debt issues spread to other EU members, according to the report.

Crédit Agricole's projections for 2010 showed real economic growth now standing at 2% in the UAE, 3.9% in Saudi Arabia, 3.2% for Kuwait and 15.3% for Qatar. Growth in Oman and Bahrain should also exceed 3% as signaled in the report.

Gulf banks' exposure to Europe remains contained and provides little systemic risk. Data from the Bank for International Settlements (BIS) for the fourth quarter of 2009 shows European lenders have about US\$ 174 billion of Gulf exposure, US banks US\$ 4 billion and UK banks US\$ 83 billion. In case of a liquidity squeeze, Gulf banks can undertake counter-cyclical measures, based on high FX reserves and support from central banks in the form of emergency liquidity facilities.

### Gulf countries' GDP expected to reach US\$ 1.5 trillion in 2015 as per NCB Capital

A recent study by NCB Capital indicated that the GCC region is on track to emerge as a US\$ 1.5 trillion economy by 2015, driven by growing emerging market demand for hydrocarbons but also supported by continued economic liberalization and capital market development that are projected to further enhance the role of the non-oil sector as an important driver of development.

Proactive policy steps adopted by the Gulf governments and regulators have established a solid foundation for a quick rebound to pre-crisis growth levels, with the aggregate nominal GDP of the GCC on track to reach US\$ 1 trillion this year, as per NBC Capital. The oils sector's contribution to regional GDP is expected to gradually decline from the current level of 48% to 45% by 2015, according to the study. The

GCC countries' combined current account balance declined from the highest ever surplus of US\$ 292 billion (27.2% of GDP) in 2008 to an estimated US\$ 56.9 billion (6.6% of GDP) in 2009, and it is expected to reach about 15% of GDP by 2015, as per NCB Capital.

The report also indicated that going forward, the GCC is likely to emerge as the leading trading hub in the world, given its huge investments in cargo transport infrastructure. Also, over the coming years, global energy needs are projected to rise significantly, which would also trigger a greater role for the GCC region as a trading hub. However, NCB Capital noted that the rise of emerging markets is shifting the traditional reliance of the GCC on the US, EU, and Japan as trade partners. Indeed, the study noted that since 2006, Asia has been the GCC's largest trading partner, and accounted for 55% of the region's total foreign trade of US\$ 758 billion in 2009. NCB Capital indicated in this report that the majority of the growth in demand for energy in the coming years is likely to come from China, India, and the Middle East itself.

Finally, NCB capital indicated that broader economic growth of the GCC region would be supported in the coming years by a bigger role for the corporate sector and growing regional integration. With respect to the corporate sector, the study indicated that in spite of considerable room for catch-up, the GCC private sector appears well positioned to leverage on the region's structural growth drivers, including a positive demographic profile with 65% of the population in the working age group of 16-65 years, as well as rising consumer wealth. Meanwhile, the study noted that deliberate integration within GCC countries has been clear over the past three decades, yet the region is still not operating as a single economic bloc. Looking forward, NCB capital noted that greater economic integration will further help the GCC emerge as a leading economic bloc.

### **Barclays Capital sees Morocco resilient through the global financial crisis**

Recent research released by Barclays Capital on Morocco indicates that the North African country weathered the global financial crisis well, attaining a real GDP growth of 5.3% in 2009, exceeding the Maghreb and the broader MENA average. However, the country's growth outlook is linked to that of the Western world, on account of strong trade and capital flows linkages with the EU.

Barclays noted that in the medium term, domestic demand is likely to remain the lever of growth in Morocco. Beyond that, prospects depend on the pace and intensity of recovery in the EU. The study expected real GDP growth in the country to remain in the range of 3.5-4.0% in the coming two years, with risks tilted to the downside should prospects in the EU

lead to a protracted slowdown in activity.

The report signaled that sustained high GDP growth rates is necessary to further curb unemployment, reduce poverty, and raise per capita incomes. Morocco's reform efforts over the past years have broadened the growth base and diversified the economy, contributing to lower unemployment rate from around 11.0% in 2005 to around 9.1% in 2009, as per Barclays. However, the research added that the country still faces the challenge of reducing further youth unemployment, and raising labor productivity by improving the quality of education.

### **EIU forecasts Tunisia's real GDP growth at 3.9% in 2010**

The Economist Intelligence Unit (EIU) forecasts Tunisia's real GDP growth at 3.9% in 2010, up from a level of 3.0% in 2009, due to a recovery in global demand and in the tourism sector. The government is projected to attempt to maintain high spending growth to stimulate the economy this year, but growth is expected to decrease to 3% in 2011, as per the EIU, as the effects of the fiscal stimulus weaken.

Export earnings are expected to increase to an average of US\$ 14.1 billion in 2010-11, up from an estimated US\$ 12.6 billion in 2009, mainly due to a recovery in demand. The import bill is projected to increase in 2010-11, in line with rising commodity prices and growing domestic demand for raw materials and semi-finished products. The industrial modernization program is projected to boost demand for capital goods, which in turn will raise merchandise imports to an average of US\$ 19.6 billion in 2010-11, according to the EIU. As a result, the trade deficit is forecast to widen from an estimated US\$ 4.7 billion in 2009 to an average of US\$ 5.5 billion in 2010-11.

Consumer price inflation is forecast to ease to 3.7% and 3.1% in 2010 and 2011 respectively, as a result of a good harvest in 2009 and continued government food and fuel subsidies, both of which will help to contain imported inflation.

The government is expected to push ahead with its five-year economic plan, aimed at reducing unemployment and raising living standards by increasing average annual economic growth to a level of 6% over the 2007-11 period. As a matter of fact, the government aims to achieve this growth through supply-side measures, such as boosting investment in manufacturing, promoting high-value knowledge-based industries, strengthening the financial sector and reforming the bureaucracy to provide better services to the private sector, as per the EIU.

Week  
**20**  
May 7 - May 14  
**2010**

## ► SURVEYS

### Sharm El Shaikh tops Middle Eastern cities in terms of hotel occupancy in the first two months of 2010 as per Ernst and Young

The hotel benchmark survey conducted by Ernst & Young indicated that Sharm El Shaikh ranked first in hotel occupancy among Middle Eastern cities in the first two months of 2010. The city's average occupancy rate of 84% was the highest when compared to 15 regional peers, bearing in mind that it constituted an increase of 10% when compared to the average occupancy rate registered in the same period of 2009. Hurghada, another Egyptian city, tied with Dubai for the second highest average occupancy rate in the region of 82%. Both cities saw their occupancy rates increase in the first two months of 2010, with the former posting a rise of 13% and the latter a rise of 6.0%.

Sharm El Shaikh might have enjoyed the highest occupancy rate in the region, yet its rooms' yield, which measures the revenue generated from each hotel room per day, remained at a fairly low US\$ 47, due to the relatively low average daily rate of US\$ 55 prevailing in the city. As a matter of fact, in spite of the significant drop of 30.9% in its rooms' yield, Abu Dhabi retained its position as the city that profits the most from its hotel rooms with a rooms' yield of US\$ 210. The drop in Abu Dhabi's rooms' yield was triggered by a 4.0% drop in the city's occupancy rate and a 26.7% decline in its average room rate. Dubai trailed closely behind Abu Dhabi with the second highest rooms' yield of US\$ 204, followed by Doha with US\$ 200 and Beirut with US\$ 184.

Finally, Doha had the most expensive hotels in the region in the first two months of 2010, with its average room rate of US\$ 294, followed by Abu Dhabi (US\$ 286), Kuwait (US\$ 268), Beirut (US\$ 261), and Dubai (US\$ 247).

#### Hotel Performance in the MENA region

(in US\$)	Occupancy		Room Rate		Rooms Yield	
	2010	2009	2010	2009	2010	2009
Abu Dhabi	73%	77%	286	390	210	303
Al Ain	70%	71%	178	178	125	128
Amman	52%	51%	147	126	78	65
Beirut	70%	67%	261	204	184	138
Cairo - Overall	75%	70%	115	115	87	81
Doha	68%	78%	294	342	200	268
Dubai - Overall	82%	76%	247	298	204	227
Hurghada	82%	69%	38	40	31	27
Jeddah	71%	69%	203	199	146	137
Kuwait	57%	64%	268	293	153	189
Madina	56%	49%	136	130	77	65
Makkah	69%	60%	197	193	138	116
Muscat	73%	78%	230	301	169	237
Riyadh	58%	65%	236	176	138	115
Sharm El Shaikh	84%	74%	55	52	47	39

Sources: Ernst and Young, Bank Audi's Research Department

### Oliver Wyman/Zogby International highlights rising business confidence in GCC

A recent survey released by Oliver Wyman/Zogby International of 134 top executives in the GCC region found that 58% of respondents saw that current conditions had improved. Indeed, high ranking executives working in Saudi Arabia, the UAE and Qatar are upbeat about future economic prospects.

The survey also indicated that 82% were optimistic about the prospects for the next two years, reiterating the fact that recovery in the region has started and its results would become more tangible in the near future.

The survey indicated that although business confidence in the UAE has risen 29 percentage points to 74% since the last report in October 2009, the country still lagged behind Saudi Arabia (85%) and Qatar (96%).

Analyst at Zogby International indicated that in the survey last October, confidence declined in the shadow of the global financial crisis. This time, however, questions asked about business confidence were more general and they mainly revolved around prospects for the future. As such, the results found real optimism across the region, with Qataris and Saudis the most confident.

The study noted that as the region begins to recover from the effects of the financial crisis, satisfaction with governments' handling of this has gone up generally since 2009 and most notably in the UAE, increasing 23 points to 70% of UAE executives polled.

Survey results found that in the UAE, in terms of present prospects and where to go next, executives' opinions in Abu Dhabi and Dubai differed. Those in Dubai were relatively pessimistic and interested in tackling labor reform and transparency, while those in Abu Dhabi were relatively optimistic and interested in educational challenges.

Lastly, the survey highlighted some cross-GCC concerns with labor reform being seen by 41% of executives as the issue most requiring immediate attention.

Oliver Wyman is an international management consultancy headquartered in the U.S. and operating in more than 40 cities in 16 countries worldwide. The firm specializes in strategy, operations, risk management, organizational transformation and leadership development.

Zogby International is a U.S. market research, opinion polling firm. The company polls and consults for a wide spectrum of business media, government, and political groups, and conducts public opinion research in more than 70 countries.

## ► CORPORATE NEWS

### **Shell and PetroChina sign exploration and production sharing agreement with Qatar Petroleum**

Qatar Petroleum, on behalf of the government of Qatar, signed an exploration and production sharing agreement (EPSA) with Shell and PetroChina Company Limited to search for natural gas in Qatar, according to company sources.

Under the EPSA, the partners would jointly search for gas in an onshore and offshore area of 8,089 square kilometers, according to a joint statement. The total term of this agreement is 30 years and starts with a five-year first exploration period, during which Shell and PetroChina will implement a work program including exploration technical studies, 2D and 3D seismic acquisition, processing, re-processing and interpretation.

Shell, as operator, would hold a 75% share in the project while PetroChina would retain the remaining 25%, according to the statement.

In cas gas is found, Shell and PetroChina would produce the natural gas under Qatar Petroleum's supervision and the Qatari company would buy the gas produced, according to the same sources.

PetroChina Company Limited is a large oil and gas producer and distributor, playing a dominant role in the oil and gas industry in China. PetroChina was established as a joint stock company by China National Petroleum Corporation in 1999. Shell is a global group of energy and petrochemical companies.

### **Drake & Scull International Qatar wins QR 139 million contract**

Drake & Scull International Qatar (DSQ), a Qatar-based mechanical, electrical and plumbing company, recently acquired by Drake & Scull International (DSI), announced its first contract win, worth QR 139 million (around US\$ 38.2 million), since DSI acquired it in April 2010.

The contract win is for a mixed used project located in the Al Sadd district of Doha, Qatar. DSI acquired DSQ with the intent of gaining greater access to the construction market in Qatar and to diversify its backlog across its network of regional offices.

DSQ was established in 2006 and has undertaken a number of important mechanical, electrical and plumbing projects in Qatar including the West Bay Complex and Qtel headquarters, and more recently the New Doha International Airport project. As of January 2010, the company's backlog stood at around US\$ 45 million.

Drake & Scull International is a regional market player delivering projects across the Middle East & North Africa, through integrated design, engineering and construction disciplines of mechanical, electrical and plumbing, civil contracting, and water, power and infrastructure. DSI established its first office in the region in Abu Dhabi in 1966, and has since expanded its operations to include offices in Dubai, Jordan, Libya, Thailand and Oman with projects in Bahrain, UAE, Saudi Arabia, Sudan, Thailand and Oman.

### **Bahrain's Unicorn Investment Bank and Standard Chartered win US\$ 6 billion sukuks bid**

Bahrain's Unicorn Investment Bank and Standard Chartered won new mandates to issue Islamic bonds (sukuks) worth nearly US\$ 6 billion this year, according to newswires.

Bahrain's Unicorn Investment Bank has won the mandate to issue two sukuks worth around US\$ 1.5 billion during the third quarter of this year, according to the same source.

Unicorn Investment Bank is also working on a US\$ 250 million Islamic debt offering for a US company, according to the same source.

Standard Chartered plans to arrange more than US\$ 4 billion worth of sukuks globally this year, exceeding last year's figures, as confidence and liquidity gradually return to credit markets, according to company executives.

### **Qatar Telecom partners with Virgin Mobile to establish an operator in Qatar**

Qatar Telecom (Qtel) made an announcement of a partnership with Virgin Mobile to establish a mobile-phone service operator in Qatar. The venture might be extended later outside Qatar, according to Virgin Group executives.

Qtel, which provides telecommunications services in 17 countries, said it may seek to buy other operators, as it faces sharper competition in its markets. Qtel faces increased competition as other operators enter its regions, which cover the Middle East, North Africa and Southeast Asia.

Qatar Telecom is the telecommunications service provider licensed by Qatar's Supreme Council of Information and Communication Technology to provide both fixed and mobile telecommunications services in the state of Qatar. Qtel says it is committed to expansion both in the Middle East and North Africa region and South East Asia. In total, Qtel provides coverage to a population in excess of 560 million people, with 57.5 million consolidated subscribers, as per company statement.

Week  
**20**  
May 7 - May 14  
2010

## ► EQUITY MARKETS

### Slight 1% price decline in regional stock markets on Eurozone prospects concerns

Regional equity markets posted a 1.0% decrease in prices week-on-week, as per Morgan Stanley Capital International Arabian Markets Index, on the back of a decrease in oil prices as worries over Greece's debt and the outlook of Eurozone economies and their future energy demand weighed on investor sentiment, notwithstanding European Union leaders' agreement to a substantial support plan to prevent Greece's financial troubles from spreading throughout the Eurozone region.

The Egyptian Exchange was the worst performer this week with a 3.0% decline in prices week-on-week. Orascom Telecom was among the most traded stocks this week. Its share price went down by 4.4% to close at LE 6.05, in view of lingering uncertainties regarding Orascom Telecom's sale of its Djezzy unit. It is worth mentioning that Orascom Telecom announced that its first quarter 2010 net profit fell 32% year-on-year to US\$ 49 million as start-up costs from Canadian operations and weak performance in Algerian subsidiary Djezzy hit earnings. The share price of Commercial International Bank, Egypt's largest private bank by assets, declined by 3.6% week-on-week to close at LE 75.1 on concerns about the delay in announcing first quarter results, noting that shares rebounded slightly towards the end of the week after the announcement of better-than-expected first quarter 2010 results.

Saudi Arabia's equity market reported a 2.0% decrease in prices as per MSCI data, undermined by petrochemical stocks on the back of relatively lower oil prices standing at about US\$ 76 per barrel. For instance, Saudi Kayan Petrochemical Company was among the most traded stocks. Its share price moved down by 4.1% to SR 21.05. On the other hand, SABIC's share price went down by 1.4% week-on-week to reach SR 103.50, noting that its share price started to rise again towards the end of the week after

announcing its joint venture with China's Sinopec has begun operations.

The UAE equity markets posted almost no change in prices (+0.1%) week-on-week according to MSCI data. In Dubai, Emaar Properties was among the most traded stocks this week. Its share price retreated by 0.5% to AED 3.83. The company announced that it started proceedings to seize properties from buyers who have defaulted on payments for flats in Dubai Marina. As to telecommunications stocks, du's share price rose by 2.3% week-on-week to close at AED 2.66. The company announced that its first quarter net profit quadrupled on a yearly basis, increasing from AED 47 million in the first quarter of 2009 to AED 194 million in the first quarter of 2010. du also indicated its plans to raise its capital to AED 4.57 billion from AED 4 billion through a rights issue that would start towards the end of May. The company's shareholders agreed to issue 571.42 million new shares at a nominal price of AED 1 per share, plus an issue premium of AED 0.75 per share.

In Abu Dhabi, Dana Gas, the Gulf's only listed natural gas company, was the most traded company during the week, seeing its share price increase by 2.5% week-on-week to close at AED 0.82. The firm posted a net profit of AED 33 million in the first quarter of 2010 compared to a loss of AED 32 million during the first quarter of 2009, due to higher oil and gas output and higher average energy prices over the period. Abu Dhabi National Energy Company, Taqa, saw its share price rise by 5.4% week-on-week to reach AED 1.18. The company announced its first quarter net profits more than tripled year-on-year to AED 440 million, supported by higher average commodity prices over the period. The low-cost carrier Air Arabia, whose share price decreased by 4.3% week-on-week to close at AED 0.90, posted a 51% drop in its net profit over the first quarter of this year that came in line with global trends of the aviation industry performance represented by the increase in fuel cost as well as continuous pressure on yield margins.

### Equity Markets Indicators

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	142.0	-0.1%	-1.4%	9.4	-21.9%	5.9	11,977.8	4.1%	9.8	1.38
Jordan	141.5	1.7%	-5.6%	195.9	-14.8%	159.1	30,859.2	33.0%	18.8	1.64
Egypt	866.5	-3.0%	10.4%	884.8	8.0%	600.7	77,630.7	59.3%	11.5	1.73
Saudi Arabia	434.4	-2.0%	11.6%	5,973.4	10.4%	927.0	351,583.6	88.3%	16.2	2.07
Qatar	651.0	-0.6%	6.5%	494.1	25.6%	80.7	110,043.7	23.3%	11.1	2.14
UAE	230.6	0.1%	0.6%	670.4	37.5%	1,241.6	136,563.7	25.5%	11.2	1.07
Oman	899.0	-1.7%	7.4%	67.4	-4.8%	62.4	18,308.4	19.2%	12.1	1.84
Bahrain	305.9	1.5%	-7.9%	2.9	50.4%	4.4	18,459.5	0.8%	11.8	1.13
Kuwait	646.3	1.7%	16.6%	694.6	19.7%	1,072.8	106,570.1	33.9%	15.7	1.50
Morocco	439.7	-0.6%	5.4%	319.2	1.3%	5.7	68,371.9	24.3%	19.5	3.90
Tunisia	1,146.6	-2.8%	-2.3%	-	-	5.0	9,295.7	-	15.6	2.00
<b>Arabian Markets</b>	<b>518.4</b>	<b>-1.0%</b>	<b>10.2%</b>	<b>9,312.1</b>	<b>11.9%</b>	<b>4,160.2</b>	<b>930,368.5</b>	<b>52.0%</b>	<b>14.0</b>	<b>1.74</b>

Values in US\$ million; volumes in millions

Sources: MSCI Barra, Zawya Investor, Bank Audi's Research Department

NB: Tunisia's figures are not all available yet, and have therefore been excluded from aggregate Arabian Markets figures

## ► FIXED INCOME MARKETS

### Regional debt markets witness two-way fluctuations in spite of Eurozone rescue plan announcement

While regional debt capital markets somewhat benefited from a few positive UAE-related developments this week, namely S&P's affirmation of ratings of some Abu Dhabi government related entities (GREs) it had placed on review for possible downgrade last month and the announcement of Nakheel's bond repayment on time, investor attention remained anchored to the European continent, and overall sentiment driven by the Greece debt issue and longer term growth prospects of similarly debt-laden Eurozone peers. The European Union-IMF package announced last weekend, which was initially perceived rather favorably, seemingly failed to reassure investors across the globe, with austerity measures announced by some Eurozone countries casting doubt over Europe's fiscal health and growth prospects.

Consequently, bond prices across Middle Eastern markets witnessed both upward and downward fluctuations this week, in spite of an aggregated 19 basis points drop in the Audi compiled weighted average Middle East bond yield relative to the previous trading week, which had witnessed sell-offs and rises in yields on European sovereign debt related fears. The region's credit default swaps markets were also driven by similar external factors, yet relatively eased down this week following the US\$ 1 trillion Eurozone rescue plan announcement, with 5-year CDS spreads declining across most Middle Eastern markets early this week, and practically witnessing relatively moderate fluctuations throughout the rest of the trading week.

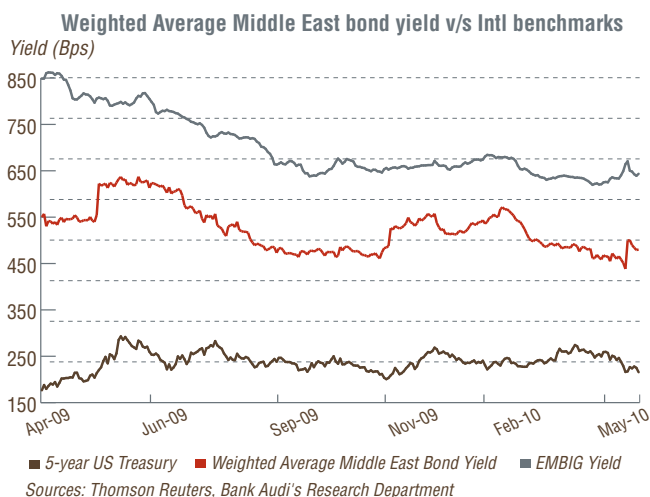
Standard and Poor's affirmed this week the long and short-term ratings of three Abu Dhabi GREs, namely Mubadala, TDIC, and IPIC, at "AA" and "A-1+", respectively, while taking them off "CreditWatch Negative" and assigning a "Stable" outlook. S&P thus maintained those three issuer ratings equalized with those of the sovereign, in light of its assessment of the critical role they play for the government and their integral links with the latter, as per S&P releases.

The rating agency added it sees extraordinary support from the government as almost certain in case of financial distress of one of the mentioned entities, in spite of the absence of a formal guarantee of the GREs' liabilities.

Another positive signal came from Dubai during this week, with news that Nakheel's US\$ 980 million Islamic bond has been repaid on schedule. Nakheel also said it has reached an agreement with its trade creditors for more than 50% of claims i.e. about US\$ 1.6 billion linked to the Dubai World conglomerate restructuring proposal, and thus added it is very close to reaching a deal and beginning cash payments. The proposal consists of a mix of 40% cash repayment with the remaining 60% coming in the form of a Sukuk offering a 10% annual return, with cash payment to commence upon reaching agreement with creditors representing 65% of the claims. Along the same lines, Dubai International Capital, which is Dubai Holding's overseas investment arm, reiterated this week it would refinance its US\$ 1.25 billion upcoming June loan while continuing to service debt obligations as usual.

While debt markets across the region have lately been responding to Eurozone related news much more than local market specific developments, the Middle East region's bond issue pipeline remains quite healthy on the overall. SABIC just announced an upcoming investor roadshow across Europe, Asia and the Middle East to start in the coming days and reportedly aiming to help raise funds for a US\$ benchmark bond for general corporate purposes possibly before the end of next month. Also, Bahrain's Bank of Bahrain and Kuwait top executive said the bank is considering a bond issue and announced meetings with investors throughout Europe, Asia and the Middle East this week. In parallel, Qatari Diar, the Qatar sovereign wealth fund's property arm, is said to have plans for a benchmark bond issue which would be the first corporate issue out of Qatar this year. Qatari Diar holds high profile international assets such as London's Chelsea Barracks, and retains a 45% stake in Qatar's Barwa Real Estate company.

Week  
**20**  
May 7 - May 14  
2010



### Middle East 5Y CDS Spreads v/s Intl Benchmarks

in basis points	14-May 2010	07-May 2010	31-Dec 2009	Week-on -week	Year-to -date
Abu Dhabi	104	115	151	-11	-47
Dubai	428	435	445	-7	-17
Qatar	85	100	105	-15	-20
Saudi Arabia	75	71	85	4	-10
Bahrain	163	160	210	3	-47
Oman	156	194	127	-39	29
Egypt	194	214	260	-20	-66
Lebanon	300	338	281	-38	19
Emerging Markets	257	295	272	-37	-15

Sources: Thomson Reuters, Bank Audi's Research Department

**SOVEREIGN RATINGS**

	Standard & Poor's	Moody's	Fitch	EIU
<b>LEVANT</b>				
Lebanon	B/Positive/B	B1/Stable	B/Stable/B	CCC/Stable
Syria	NR	NR	NR	CCC/Positive
Jordan	BB/Stable/B	Ba2/Stable	NR	B/Stable
Egypt	BB+/Stable/B	Ba1/Stable	BB+/Stable/B	BB/Stable
Iraq	NR	NR	NR	CC/Stable
<b>GULF</b>				
Saudi Arabia	AA-/Stable/A-1+	Aa3/Stable	AA-/Stable/F1+	BBB/Stable
UAE	AA/Stable/A-1+	Aa2/Stable	AA/Stable/F1+	BB/Positive
Qatar	AA-/Stable/A-1+	Aa2/Stable	NR	A/Stable
Kuwait	AA-/Stable/A-1+	Aa2/Negative	AA/Stable/F1+	A/Stable
Bahrain	A/Stable/A-1	A2/Negative	A/Stable/F1	BBB/Stable
Oman	A/Stable/A-1	A1/Stable	NR	A/Stable
Yemen	NR	NR	NR	CC/Stable
<b>NORTH AFRICA</b>				
Algeria	NR	NR	NR	BB/Stable
Morocco	BBB-/Stable/A-3	Ba1/Stable	BBB-/Stable/F3	BB/Stable
Tunisia	BBB/Stable/A-3	Baa2/Stable	BBB/Stable/F2	BB/Stable
Libya	NR	NR	BBB+/Stable/F2	BB/Stable
Sudan	NR	NR	NR	C/Stable

NR = Not Rated

**INTERNATIONAL MARKET RATES**

	14-May-10	07-May-10	31-Dec-09	Weekly Change	Year-to-date
US Prime Rate	3.25%	3.25%	3.25%	0.00%	0.00%
3-M Libor	0.45%	0.43%	0.25%	0.02%	0.19%
US Discount Rate	0.75%	0.75%	0.50%	0.00%	0.25%
US 10-year bond	3.46%	3.43%	3.84%	0.02%	-0.38%

**FX RATES (per US\$)**

	14-May-10	07-May-10	31-Dec-09	Weekly Change	Year-to-date
<b>LEVANT</b>					
Lebanese Pound (LBP)	1,507.50	1,507.50	1,507.50	0.0%	0.0%
Syrian Pound (SYP)	46.95	46.75	45.75	0.4%	2.6%
Jordanian Dinar (JOD)	0.71	0.71	0.71	0.1%	0.1%
Egyptian Pound (EGP)	5.61	5.60	5.49	0.2%	2.3%
Iraqi Dinar (IQD)	1,166.00	1,165.00	1,150.00	0.1%	1.4%
<b>GULF</b>					
Saudi Riyal (SAR)	3.75	3.75	3.75	0.0%	0.0%
UAE Dirham (AED)	3.67	3.67	3.67	0.0%	0.0%
Qatari Riyal (QAR)	3.64	3.64	3.64	0.0%	0.0%
Kuwaiti Dinar (KWD)	0.29	0.29	0.29	0.3%	1.2%
Bahraini Dinar (BHD)	0.38	0.38	0.38	0.0%	0.0%
Omani Riyal (OMR)	0.38	0.38	0.38	0.0%	0.0%
Yemeni Riyal (YER)	203.75	203.75	203.00	0.0%	0.4%
<b>NORTH AFRICA</b>					
Algerian Dinar (DZD)	72.84	73.45	70.42	-0.8%	3.4%
Moroccan Dirham (MAD)	8.90	8.68	7.88	2.5%	13.0%
Tunisian Dinar (TND)	1.50	1.48	1.32	1.5%	13.1%
Libyan Dinar (LYD)	1.32	1.30	1.23	1.2%	7.1%
Sudanese Pound (SDG)	2.23	2.23	2.24	0.0%	-0.5%

**COMMODITIES (in US\$)**

	14-May-10	07-May-10	31-Dec-09	Weekly Change	Year-to-date
Crude oil barrel (Brent)	75.7	77.4	77.7	-2.1%	-2.5%
Gold ounce	1,232.6	1,207.8	1,095.7	2.0%	12.5%
Silver ounce	19.3	18.3	16.8	5.1%	14.4%
Platinum ounce	1,715.5	1,659.0	1,467.0	3.4%	16.9%

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