The Lebanon Weekly Monitor

Week 22
May 24 - May 30
2010

▶ECONOMY

p.2 ▶ HSBC expects economic growth to persist in 2010-11 but at a slower pace

A recent report released this week by HSBC indicated that Lebanon was the only country in the MENA region to have shrugged off the global recession to record rates of growth well above MENA trend.

Also in this issue:

▶SURVEYS

p.4 ▶ Citigroup commends Lebanon's resilience but warns of complacency

Citigroup issued a report termed "Lebanon Macro View: Remarkable Resilience but Beware Complacency" in which it noted that Lebanon emerged virtually unscathed relative to countries running twin deficits and a high debt.

▶CORPORATE NEWS

p.5 ▶ Solidere sal posts US$ 182 million in net profits in 2009

Solidere sal, the real estate company in charge of the development and reconstruction of the Beirut Central District, announced net profits of US$ 182 million for 2009.

Also in this issue:

▶MARKETS IN BRIEF

p.6 ▶ Lebanese equity and bond prices remain stable, bucking regional declines

Equity and bond prices remained stable this week while all regional bourses and fixed-income markets saw declines and significant selling operations on the back of global concerns about Greece's debt crisis and its spillovers on other European countries, which raised fears that this will derail the global economic recovery. In fact, equity prices remained relatively stable week-on-week, as reflected by a stable BSE price index at 143.07, while trading activity was weak in except for large cross trades on Solidere shares executed at the beginning of the week. One of the major events characterizing the BSE this week was the effectiveness of the split of the Bank Audi's outstanding share capital, including the Bank's common shares and series D preferred shares, as well as the GDRs representing common shares, in each case, at a ratio of 10 to 1. On the bond market, the foreign offer persisted, especially at the beginning of the week in line with some selling operations across regional bond markets. The offer was more or less met by some local demand that intensified towards the end of the week, which contributed to maintaining stability in bond prices week-on-week. The average bond spread shrank by 16 basis points to hit 239 basis points, mainly driven by a rise in benchmark yields, as international investors turned to riskier assets after the Chinese Central Bank stated that Europe remains a key investment market for China's foreign exchange reserves.

Research Department
Bank Audi sal - Audi Saradar Group
Bank Audi Plaza, Bab Idriss, Riad El Solh - Beirut - Lebanon
P.O.Box : 11 - 2560 / Tel : (01) 994000 / Telefax : (01) 985622
Swift : AUDBLBBX - http://www.banqueaudi.com

HSBC expects economic growth to persist in 2010-11 but at a slower pace

A recent report released this week by HSBC indicated that Lebanon was the only country in the MENA region to have shrugged off the global recession to record rates of growth well above MENA trend. This strongly counter-cyclical performance has been achieved due to some uniquely Lebanese drivers. Chief among these has been a period of relative political calm, which has encouraged an upsurge in construction activity and rapid growth in the tourism-led service sector, as per the report. The pace and scope of the upturn have been accelerated by the size and wealth of the Lebanese Diaspora, driving strong growth in visitor numbers and real estate demand. Overseas deposits in the banking sector have also soared, supporting an acceleration in credit growth, lower-cost funding for the government and a doubling of the Central Bank reserves over the past 18 months, according to HSBC.

The pace and durability of the economic recovery, however, reflect the overseas resources on which Lebanon can draw. Although Lebanon has a small merchandise export sector, its service sector, particularly its tourism industry, is substantial, as per the report. The number of tourists increased by 70% over 2008-09. The core demand for tourism services comes from elsewhere in the region (particularly the Gulf), but also from the large Diaspora of expatriate Lebanese. As well as visiting Lebanon in ever greater numbers since 2006, the expatriate Diaspora and Gulf Arabs have also invested in Lebanon, particularly in real estate, as stated by HSBC. According to the most recent Central Bank data, FDI inflows rose by 30% in 2008 to a record US$ 3.6 billion. The sum is equivalent to 10% of GDP – the highest ratio anywhere in the region. Inflows probably rose further in 2009 and are likely to remain strong in 2010, with a substantial proportion directed towards real estate, according to the bank.

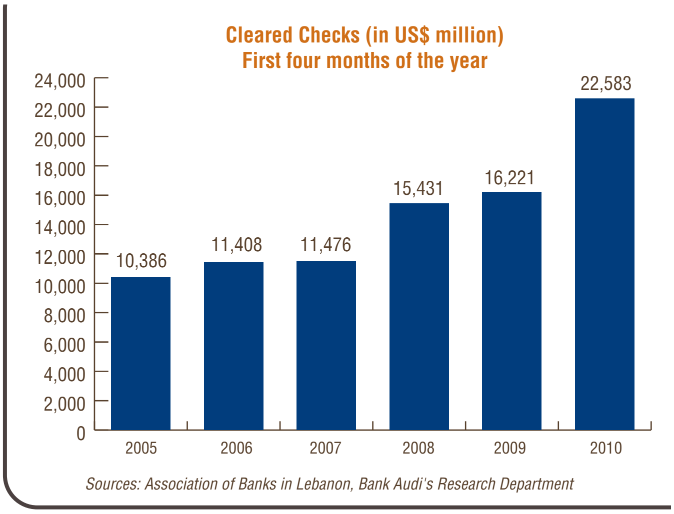
In addition to demand for services and rapid growth in FDI, the Diaspora has also contributed strongly to rapid gains in banking sector liquidity, as per HSBC. As well as being large in number, traditionally high levels of education and strong language skills have tended to result in expatriates earning high salaries. Confident in the banking sector's solvency and attracted by the rates of interest offered and tradition of confidentiality, first- and second-generation expatriates have long placed funds on deposit with local Lebanese banks, according to the report.

HSBC expects the upturn in economic activity to persist over 2010-11. The pace of economic growth is likely to slow as the recovery matures but it seems unlikely to the bank that Lebanon has restored the output lost during the earlier years of political turmoil. The potential output gap is impossible to measure, but continued low consumer price inflation (3.4% at end-2009 according to the IMF), despite the surge in real economic growth and marked monetary expansion, suggests that the economy still has some slack. Data is scant, but unemployment appears to remain elevated and wage pressures subdued. More broadly, the key factors that kick-started and then accelerated the recovery still look to be in place, as per the report. Provided there is no deterioration in the regional political environment, prospects for a strong summer tourism season this year are good, supported by increased leisure sector capacity. Foreign capital inflows seem to have maintained momentum and have shown no sign of reverse, while the banking sector continues to look very liquid. The strong rise in real estate prices necessarily raises concerns over the emergence of a bubble, but the boom in construction looks to be supported by still strong real demand and good access to finance, as stated by HSBC.

Finally, with respect to public finances, the report noted that they are benefiting from the upturn in economic fortunes but remain chronically unbalanced. Failure to push ahead with reforms will weigh on economic growth and may push recent fiscal gains into reverse in the medium-term. Over the coming two years, however, HSBC does not believe inaction will lead to instability as the banks are well positioned to meet the government's borrowing requirement.

Clearing activity up by 39% in the first four months of 2010

The value of cleared checks in the banking system, a coincident indicator of overall spending patterns in the economy, showed a buoyant performance in the first four months of the year. Figures released by the Association of Banks in Lebanon indicate that total cleared checks amounted to US$ 22,584 million in the first four months of 2010, up by a con-



Sources: Association of Banks in Lebanon, Bank Audi's Research Department siderable 39.2% from the corresponding period of the previous year. This mirrors a rise in consumer and investor confidence manifested by the increased spending on consumer and capital goods. Indeed, the significant acceleration in clearing activity has triggered an important rise in the velocity of money, of circa 17% over the covered period, representing the continuation of buoyant real economic growth.

This increase is mostly the result of a 43.1% increase in foreign currency denominated checks that totaled US$ 18,285 million, which was higher than the increase of 24.8% in local currency denominated checks totaling LP 6,479 billion. The rise in foreign currency denominated checks within a context of a lower increase in LP denominated checks has led to an increase in the dollarization rate to 80.9% in the first four months of 2010 versus 78.7% in the same period of last year.

On a monthly basis, cleared checks totaled US$ 5,674 million in April 2010, up by a significant 40.9% from the same month of the previous year. The year-on-year increase in clearing activity was again mainly driven by increased foreign currency denominated checks and to a lesser extent by local currency denominated checks. The former went up by 43.2% to US$ 4,615 million while the latter progressed by 31.7% to LP 1,596 billion.

Imports of industrial machinery up by 7% in the first quarter of 2010

According to statistics released by the Ministry of Industry, imports of industrial machinery, which mirror the activity of investments made in the industrial sector, amounted to US$ 57.9 million in the first quarter of 2010, up by 7.1% from the same period of 2009. The value of imports of industrial machinery reached a record high when compared to the first quarter of the previous years, indicating an upsurge in industrial activity or plans to intensify industrial activity in the country.

The distribution of imported industrial machinery by country of origin in the first quarter of 2010 reveals that Italy was the largest exporter of industrial machinery to Lebanon with exports worth US$ 15.2 million and accounting for about 26.3% of the total. It was followed by Germany with US$ 9.6 million (16.5%), China with US$ 7.5 million (13.0%), Sweden with US$ 4.6 million (8.0%), France with US$ 4.5 million (7.8%), Turkey with US$ 2.9 million (5.1%), and the United States with US$ 2.4 million (4.1%).

Quality of living improves in Beirut as per Mercer Human Resource Consulting

The annual 'Worldwide Quality of Living Survey' covering 221 cities around the world, by global consultants Mercer Human Resource Consulting, indicated that overall quality of life in Beirut has improved in the year extending between May 2009 and May 2010, bucking the overall global trend. The study noted that standards of living in several cities across the globe were adversely affected by the repercussions of the global financial crisis, which in turn led to a decline in their quality of living scores. The Lebanese capital in parallel saw its score increasing to a record high level.

The survey ranked Beirut as the 172nd most desirable city for overall living standards, and the 14th among 19 Middle East and North African in 2010. Beirut progressed three notches in its global ranking from rank 175 in 2009. Beirut's regional ranking, on the other hand, remained unchanged at the 14th position, bearing in mind that Beirut's regional ranking would have improved by two spots had it not been for the fact that this year, the survey included two new MENA cities, namely Doha in Qatar and Rabat in Morocco. As a matter of fact, the 2010 survey included an overall of six new cities to the 215 cities listed in previous surveys.

The study evaluated the cities on the basis of 39 key quality-of-living determinants grouped into 10 categories mainly political, economic, and socio-cultural factors, in addition to the environment, housing, entertainment, health care, education, transportation, and other public services. New York City served as the benchmark for other cities with a score of 100.

This year, Beirut's score attained a record high when compared to previous years, during which the survey was conducted, i.e. since 2007. Indeed, Beirut score was at 54.6 points in 2010, up by 5.2% from a score of 51.9 points in 2009, 2.4% from a score of 53.3 in 2008 and 4.0% from a score of 52.5 in 2007. The improvement in Beirut's score in 2010 compares to a decline of 1.2% in global average to 75.4 points, as well as a smaller rise of 3.4% in the MENA average score to 65.6 points. This reiterates the fact that the global crisis did not affect quality of living in the Lebanese capital, as it did with regional and global counterparties, and Beirut once again stood resilient to the global turmoil.

Regionally, Beirut came in ahead of Damascus, which ranked 173nd globally and scored 53.8 points, Algeria, which ranked 182nd globally and scored 51.3 points, Tehran, which ranked 183rd globally and scored 50.4 points, Sanaa which came in 215th globally and scored 34.3 points, and Baghdad which came in the last position globally with a score of 14.7 points. On the other hand, it came in directly after Jeddah, with a score of 58.9 and a global rank of 159, Riyadh, with a score of 59.6 and a global rank of 158, Cairo, with a score of 71.9 and a global rank of 126, and Amman with a score of 72.4 points and a global rank of 123.

Citigroup commends Lebanon's resilience but warns of complacency

Citigroup issued a report termed "Lebanon Macro View: Remarkable Resilience but Beware Complacency" in which it noted that despite having a high public debt and substantial twin deficits, Lebanon has shown resilience. It added that the banking sector and inflows from the Diaspora exhibited remarkable resilience in the face of significant political instability over the past six years but warned of complacency.

Greece's sovereign debt crisis has shed the light on public finances, especially among investors. Sovereigns running twin deficits and a high debt have generally seen a significant re-pricing of risk on their traded debt. However, the report signaled that Lebanon is clearly bucking the trend as its CDS spreads were hardly changed since November 2009, despite having the highest debt burden when compared to Greece, Portugal, Spain or even Ireland.

The bank indicated that the performance of Lebanon's sovereign debt is strengthened by demand from the domestic banking sector, whose balance sheets are supported by record inflows from the Lebanese Diaspora. Still, the bank mentioned medium term significant risks that could hinder this dynamic: the Hariri Tribunal, regional geopolitics, and a renewed slowdown in the global economy.

Over the past couple of years, Lebanon has seen some success in reducing debt to GDP, but this has been driven by acceleration in nominal GDP growth rather than through any reduction of the debt stock as stated by Citigroup. In fact, progress on structural reforms has been missing, and was deemed vital to create a significant improvement in Lebanon's public finances. The key components of the reform package, enshrined in the Paris III agreement, are privatization, revenue enhancement, and expenditure control, according to the report.

With respect to the first reform, the lucrative telecom sector, infrastructure assets (including power), and the national carrier (Middle East Airlines) are on the list for privatization. On revenue reform, the financial institution highlighted the need for further progress on tax collection, and raising VAT. On expenditure reform, primary expenditure (excluding transfers to EdL) which was at a low 18% of GDP in 2009, is expected to increase over time as social pressures weigh on spending, particularly in much-needed infrastructure projects. According to the document, the most critical aspect of expenditure reform is rather controlling transfers to EdL which entails significant reform of the energy sector, including a tariff shake-up, a clamp-down on electricity theft and an overhaul of production and management at EdL, possibly paving the path to its privatization.

As to Lebanon's external situation, exports, particularly in tourism and finance, are expected to surge in 2010 but this will be offset by rising imports associated with the continued recovery in the economy, and the current account deficit is likely to widen moderately over the next two years, according to the report. Citigroup pointed out that Lebanon's ability to maintain its twin deficit has long rested on the Lebanese Diaspora. On the external account, remittances by Lebanese workers abroad and inflows of non-resident deposits have averaged 25% of GDP over the past seven years, and have covered the current account deficit (excluding transfers) in each of the seven years with the exceptions of 2005 and 2007 due to political turmoil, which resulted in a relative slow down of inflows.

From a fiscal perspective, Diaspora inflows are also considered crucial. At end-March 2010, the banking system held around 80% of total government debt. This ability to keep financing the public sector depends on its deposit base which in turn reflects inflows from the Diaspora. According to Citigroup, these inflows have led to significant deposit growth as a proportion of GDP over the past decade, and a consequent increase in the capacity of the banking system to absorb the public debt. As a matter of fact, debt as a proportion of total deposits, a potential measure of the banking sector's capacity to finance government deficits, is lower than it has been at any time in the previous decade.

Citigroup noted that recent history has demonstrated the remarkable resilience of the Lebanese banking system and the Diaspora's confidence. That said, the Diaspora's willingness to remit funds is not without its limits. Amid political instability in 2005 and 2007-2008, sustained outflows of non-resident deposits were recorded and yields on Lebanese debt were around twice the level that they are now, as per the report. Finally, while confidence did not scatter to the extent of a full-blown financing crisis for Lebanon, the potential exists for financing conditions to tighten significantly relative to where they are today, according to Citigroup.

Lebanon General Government Finances

(% of GDP)	2009	2010f	2011f
Total Revenues	**25%**	**26%**	**27%**
o/w Tax Revenues	18%	19%	21%
o/w Non-Tax Revenues	7%	7%	6%
Total Expenditures	**34%**	**35%**	**38%**
o/w Interest	11%	12%	12%
o/w EdL	4%	5%	4%
o/w Other	18%	19%	21%
Budget Balance	**-9%**	**-10%**	**-11%**
Primary Balance	**3%**	**2%**	**2%**

Sources: Lebanese Ministry of Finance, Citigroup estimates, Bank Audi's Research Department

CORPORATE NEWS

Solidere sal posts US$ 182 million in net profits in 2009

Solidere sal, the real estate company in charge of the development and reconstruction of the Beirut Central District, announced its audited financial statements for 2009, posting net profits of US$ 182.2 million, against US$ 183.6 million in 2008.

Total revenues from land and real estate sales reached US$ 305.1 million in 2009, against US$ 256.6 million in 2008. Revenues from rented properties reached US$ 27.3 million in 2009, against US$ 21.7 million in 2008. Solidere sal's total assets amounted to US$ 2.3 billion at year-end 2009.

Solidere operates in two geographic markets, the Lebanese market as Solidere sal and in the Middle East as Solidere International. Solidere's consolidated net profits stood at US$ 189.2 million in 2009.

These positive results come within the context of a downturn in regional and global property markets following the outburst of the global crisis and reflect the company's ability to generate increasing profits, which result mainly from increasing land sales revenues as well as from its property rental income, according to company statements. New land sales agreements were signed in 2009 for a total value of around US$ 305 million, up by 19% from 2008. Further, negotiations are underway with other investors to sell other land sections in Solidere sal's inventory, with an estimated value of US$ 450 million, according to Solidere sal statements.

According to Solidere sal, a combination of several factors helped the company weather the global financial crisis, most importantly its policy to keep high levels of liquidity, the lack of leverage, and a strong asset base together with a sound cash placement policy, in addition to the solid fundamentals of the company and the project. In light of its 2009 results, the company's Board of Directors is recommending to the General Meeting of Shareholders to distribute a dividend equivalent to one US$ 1.15 per share.

Banque Libano-Française's net profits up by 28% to US$ 17.6 million in the first quarter of 2010

Banque Libano-Française reported net profits of US$ 17.6 million in the first quarter of 2010, up by 27.9% from US$ 13.8 million in the first quarter of 2009. Interest margin rose by 14.2% from US$ 29.7 million in the first quarter of 2009 to US$ 34.0 million in the first quarter of 2010, while non-interest income rose from US$ 10.0 million in the first quarter of 2009 to US$ 14.1 million in the first quarter of 2010. Subsequently, operating income increased by 21.0% to reach US$ 48.0 million in the first quarter of 2010.

Total operating expenses increased by a yearly 20.6% to US$ 26.2 million in the first quarter of 2010, of which staff expenses reached US$ 15.3 million, up by 19.8% from the first quarter of 2009. The bank's cost-to-income ratio stood at 54.6% in the first quarter of 2010.

Total assets amounted to US$ 7.7 billion at end-March 2010, up by 2.4% from US$ 7.6 billion at year-end 2009. Customer deposits totaled US$ 6.3 billion, remaining practically unchanged from year-end 2009. Loans increased by 4.2% to reach US$ 2.3 billion at end-March 2010. The ratio of loans to deposits was 37.3% at end-March 2010, compared to 35.7% at year-end 2009.

The bank's shareholders' equity amounted to US$ 717.3 million at end-March 2010, up by 20.8% from US$ 594.0 million at year-end 2009. Subsequently, the bank's equity to assets ratio stood at 9.3% at end-March 2010, compared to 7.9% at year-end 2009. The bank's net return on average assets amounted to 0.9% in the first quarter of 2010, while its net return on average equity reached 10.4%.

Fransabank's net profits at US$ 29.5 million in the first quarter of 2010

Fransabank reported net profits of US$ 29.5 million in the first quarter of 2010, against US$ 16.9 million in the first quarter of 2009. Interest margin reached US$ 54.8 million in the first quarter of 2010, up by 17.3% from US$ 46.8 million in the first quarter of 2009, while non-interest income rose from US$ 9.8 million in the first quarter of 2009 to US$ 21.9 million in the first quarter of 2010. Consequently, operating income increased by 35.8% to reach US$ 76.8 million in the first quarter of 2010.

Total operating expenses amounted to US$ 41.1 million in the first quarter of 2010, up by a yearly 20.2%, of which staff expenses reached US$ 24.4 million, up by 19.1% from the first quarter of 2009. The bank's cost-to-income ratio stood at 53.5% in the first quarter of 2010.

Total assets rose by a mere 0.9% to attain US$ 10.9 billion at end-March 2010, from US$ 10.8 billion at year-end 2009. Customer deposits totaled US$ 9.0 billion, remaining practically unchanged from year-end 2009. Loans increased by 6.0% to reach US$ 2.4 billion at end-March 2010. The ratio of loans to deposits was 27.2% at end-March 2010.

The bank's shareholders' equity amounted to US$ 1.11 billion at end-March 2010, up by 5.2% from US$ 1.06 billion at year-end 2009. Subsequently, the bank's equity to assets ratio stood at 10.2% at end-March 2010. The bank's net return on average assets amounted to 1.1% in the first quarter of 2010, while its net return on average equity reached 10.5%.

CAPITAL MARKETS

Money Market: Week-on-week decline in money supply (M4)

In view of continuous FC-to-LP conversions on the foreign exchange market and the availability of local currency liquidity on the money market, the overnight rate remained stable this week at its low official level of 2.75% set by the Central Bank of Lebanon.

As to short-term Certificates of Deposits, no subscriptions were made this week in the 45-day and 60-day categories. As such, subscriptions totaled LP 1,436 billion since the beginning of the year 2010 and were distributed as follows: LP 261 billion in the 45-day category and LP 1,175 billion in the 60-day category. Interest rates remained unchanged, standing at 3.57% and 3.85% on the 45-day and 60-day categories respectively.

On the monetary aggregates level, figures for the week ending 13th of May 2010 indicated an increase of LP 124 billion in local currency deposits, as a result of a growth of LP 91 billion in LP time deposits and a LP 33 billion rise in LP demand deposits week-on-week. Deposits in foreign currencies fell by US$ 174 million. These weekly variations compare to an average weekly increase of LP 208 billion for LP deposits since the beginning of the year 2010, and an average weekly rise of US$ 49 million in foreign currency deposits. Within this context, LP money supply (M2) expanded by LP 36 billion during the week ending 13th of May 2010, as compared to an average weekly increase of LP 212 billion since the beginning of the year 2010. In addition, total money supply in its large sense (M4) tightened by LP 240 billion week-on-week, as compared to an average weekly increase of LP 306 billion since the beginning of the year 2010.

Interest rates	28/5/10	21/5/10	31/12/09	
Overnight rate	2.75%	2.75%	3.00%	⇔
7 days rate	2.86%	2.86%	3.10%	⇔
1 month rate	3.31%	3.31%	3.52%	⇔
45-day CDs	3.57%	3.57%	3.77%	⇔
60-day CDs	3.85%	3.85%	4.03%	⇔

Treasury Bills Market: Weighted average yield at 8.58% in March

On the secondary Treasury bills market, market participants traded short-term to medium-term papers in moderate volumes during this week.

As to the primary market, the preliminary results of this week's auction (May 27, 2010) showed that the average yield on the three-month category dropped by 10 basis points to reach 4.00%, while the average yield on the six-month category tumbled by 21 basis points to hit 4.81%, and the average yield on the five-year category fell by 18 basis points to reach 6.48%. It is worth mentioning that the Central Bank of Lebanon allowed commercial banks to subscribe to 50% of their accepted bids in the three-month category. In addition, it allowed them to subscribe to 20% of their accepted bids in the six-month category, while it allowed public institutions to subscribe to 15% of their bids in the same category. As to the five-year category, the Central Bank allowed commercial banks to subscribe to 20% of their accepted bids.

On the other hand, the Central Bank of Lebanon released this week the auction results for value date May 20, 2010 which showed that total subscriptions amounted to LP 339 billion, and were distributed as follows: LP 34 billion in the one-year category, LP 21 billion in the two-year category and LP 284 billion in the three-year category. These compare to maturities of LP 911 billion, resulting in a nominal deficit of LP 572 billion.

The latest monthly report released by the Association of Banks in Lebanon showed that the total Tbs portfolio amounted to LP 44,431 billion at end-March 2010 versus LP 45,246 billion at end-February 2010 and LP 43,758 billion at end-December 2009. The decline in Tbs portfolio of LP 815 billion during the month of March is mainly attributed to the suspension of Tbs issuance during the said month. In addition, the weighted average yield on outstanding Treasury bills reached 8.58% at end-March 2010 as compared to 8.57% at end-February 2010 and 8.66% at end-December 2009.

Treasury bills	28/5/10	21/5/10	31/12/09	
3-month	4.00%	4.10%	4.55%	↓
6-month	5.02%	5.02%	5.72%	↓
1-year	4.81%	5.18%	5.73%	⇔
2-year	5.58%	5.58%	6.32%	⇔
3-year	6.20%	6.20%	7.10%	⇔
5-year	6.48%	6.66%	7.74%	↓
Nom. Subs. (LP billion)		339	500	
Short-term (3&6 mths)		-	-	
Medium-term (1&2 yrs)		55	49	
Long-term (3 yrs)		284	451	
Long-term (5 yrs)		-	-	
Maturities		911	232	
Nom. Surplus/Deficit		-572	268	

Foreign Exchange Market: Continuous FC-to-LP conversions

Conversions in favor of the Lebanese Pound continued on the foreign exchange market during this week, in similar volumes relative to the previous week. In parallel, activity was almost absent in the interbank market, which kept the LP/US$ interbank rate unchanged at LP 1,501.00-LP 1,502.00. Within this context, commercial banks sold their surpluses in US Dollars to the Central Bank of Lebanon at LP 1,501.00, the lower end of its intervention bracket.

Exchange rates	28/5/10	21/5/10	31/12/09	
LP/US$	1,507.5	1,507.5	1,507.5	⇔
LP/£	2,195.67	2,172.91	2,389.24	↓
LP/¥	16.53	16.75	16.34	↑
LP/SF	1,310.76	1,308.37	1,451.33	↓
LP/Can$	1,440.10	1,414.30	1,436.12	↓
LP/Euro	1,874.27	1,884.98	2,159.95	↑

Stock Market: Stable BSE price index

Activity was weak on the equity market during this week in except for large cross trades executed on Solidere shares. Prices remained stable week-on-week, as reflected by a stable price index at 143.07. One of the major events characterizing the BSE during this week was the effectiveness of the split of the Bank Audi's outstanding share capital, including the Bank's common shares and series D preferred shares, as well as the GDRs representing common shares, in each case, at a ratio of 10 to 1.

The total trading value amounted to US$ 109.3 million this week as compared to US$ 14.8 million last week. Solidere shares captured the lion's share of the BSE's activity, accounting for 96.73% of the total. Solidere "A" share price declined by 0.7% to close at US$ 23.24, and Solidere "B' share price edged down by 0.3% to US$ 23.10.

Audi Indices for BSE	28/5/10	21/5/10	31/12/09	
22/1/96=100				
Market Cap. Index	508.66	508.82	505.10	↓
Trading Vol. Index	1,005.93	110.09	115.58	↑
Price Index	143.07	143.11	144.04	↓
Change %	-0.03%	0.78%	0.91%	↓
Market Cap. $m	12,067	12,071	11,983	↓
No. of shares traded	4,780,434	691,145	248,012	↑
Value Traded $000	109,280	14,792	6,434	↑
o.w. : Solidere	105,712	11,220	2,055	↑
Banks	3,469	3,539	4,375	↓
Others	99	33	4	↑

As to banking stocks, they accounted for 3.2% of activity this week. In details, Bank Audi's listed share price closed at US$ 8.21 versus US$ 82.00 last week, prior to split. Bank Audi's GDR closed at US$ 8.80 versus US$ 86.50 last week. BLOM's GDR price nudged up by 0.2% this week to close at US$ 92.95. Byblos Bank's "listed" share price declined by 0.5% to reach US$ 1.85. Similarly, Byblos Bank's "priority" share price retreated by 0.5% to US$ 1.87. Among the industrial shares, Holcim's share price surged by 6.0% to US$ 13.26.

Week 22
May 24 - May 30
2010

As compared to other emerging stock markets, the BSE reported lower performance this week, as shown by a 5.8% increase in the Morgan Stanley Capital International Emerging Market Free Index (MSCI EM). In contrast, the BSE performed relatively better than other Arabian and GCC equity markets, as reflected by a 6.4% decline in the Morgan Stanley Capital International Arabian Markets Index (MSCI Arabian Markets) and a 7.0% drop in the Morgan Stanley Capital International GCC Countries Index (MSCI GCC Countries Index).

Bond Market: The average spread tightens by 16 basis points week-on-week

The Eurobond market continued to witness foreign offer, especially at the beginning of the week, in line with some selling operations on regional bond markets during this week. Yet, some local demand floated on the surface and was intensified towards the end of the week, which contributed to recording a rebound in bond prices after they have seen some declines early this week.

Within this context, bond prices remained stable week-on-week, as shown by a very tiny decline in the average yield of three basis points to close at 4.58%. The average spread shrank by 16 basis points to hit 239 basis points, mainly driven by a rise in benchmark yields. For instance, the average yield on five-year US Treasury bills rose from 1.96% last week to 2.17% this week as international investors turned to riskier assets after the Chinese Central Bank stated that Europe remains a key investment market for China's foreign exchange reserves.

Eurobonds Indicators	28/5/10	21/5/10	31/12/09	
Total tradable size $m	17,834	17,841	17,704	↓
o.w.: Sovereign bonds	17,364	17,371	17,134	↓
Average Yield	4.58%	4.61%	5.31%	↓
Average Spread	239	255	290	↓
Average Life	4.84	4.86	4.57	↓
Yield on US 5-year note	2.17%	1.96%	2.62%	↑

ARAB STOCK MARKETS INDICES:

	28-May-10	21-May-10	31-Dec-09	Weekly change	End-year-to-date change
Lebanon	143.1	143.1	144.0	0.0%	-0.7%
Jordan	135.5	138.7	149.9	-2.4%	-9.6%
Egypt	789.6	801.8	784.9	-1.5%	0.6%
Saudi Arabia	373.8	410.2	389.3	-8.9%	-4.0%
Qatar	594.6	628.5	611.1	-5.4%	-2.7%
UAE	208.2	224.1	229.3	-7.1%	-9.2%
Oman	847.6	868.1	837.2	-2.4%	1.2%
Bahrain	290.9	301.2	331.9	-3.4%	-12.4%
Kuwait	616.2	637.7	554.5	-3.4%	11.1%
Morocco	412.0	444.8	417.0	-7.4%	-1.2%
Tunisia	1,174.3	1,192.7	1174.1	-1.5%	0.0%
Arabian Markets	465.3	497.1	470.5	-6.4%	-1.1%

Sources: MSCI Barra, Bank Audi's Research Department

INTERNATIONAL MARKET INDICATORS:

	28-May-10	21-May-10	31-Dec-09	Weekly change	End-year-to-date change
EXCHANGE RATES					
YEN/$	91.03	90.08	92.46	1.1%	-1.5%
$/£	1.454	1.436	1.589	1.3%	-8.5%
$/Euro	1.236	1.249	1.432	-1.0%	-13.7%
STOCK INDICES					
DOW JONES INDUSTRIAL AVERAGE	10,136.63	10,193.39	10,548.51	-0.6%	-3.9%
S&P 500	1,089.41	1,087.69	1,126.42	0.2%	-3.3%
NASDAQ	2,257.04	2,229.04	2,291.28	1.3%	-1.5%
CAC 40	3,515.06	3,430.74	3,935.50	2.5%	-10.7%
Xetra Dax	5,946.18	5,829.25	5,957.43	2.0%	-0.2%
FT-SE 100	5,188.43	5,062.93	5,397.90	2.5%	-3.9%
NIKKEI 225	9,762.98	9,784.54	10,546.44	-0.2%	-7.4%
COMMODITIES					
GOLD OUNCE	1,213.81	1,175.15	1,095.70	3.3%	10.8%
SILVER OUNCE	18.35	17.59	16.83	4.3%	9.0%
BRENT CRUDE (barrel)	72.96	70.63	77.66	3.3%	-6.1%
LEADING INTEREST RATES (%)					
1-month Libor	0.35	0.34	0.23	0.01	0.12
US Prime Rate	3.25	3.25	3.25	0.00	0.00
US Discount Rate	0.75	0.75	0.50	0.00	0.25
US 10-year Bond	3.30	3.23	3.84	0.07	-0.54

CONTACTS

Treasury and Capital Markets
Micky Chebli (01) 977419 micky.chebli@banqueaudi.com
Emile Shalala (01) 977622 emile.shalala@banqueaudi.com

Private Banking
Toufic Aouad (01) 329328 toufic.aouad@audisaradarpb.com

Corporate Banking
Khalil Debs (01) 977229 khalil.debs@asib.com

Research
Marwan Barakat (961-1) 977409 marwan.barakat@banqueaudi.com
Jamil Naayem (961-1) 977406 jamil.naayem@banqueaudi.com
Salma Saad Baba (961-1) 977346 salma.baba@banqueaudi.com
Rana Helou (961-1) 964763 rana.helou@banqueaudi.com
Lea Korkmaz (961-1) 964904 lea.korkmaz@banqueaudi.com
Fadi Kanso (961-1) 977470 fadi.kanso@banqueaudi.com
Nathalie Ghorayeb (961-1) 964047 nathalie.ghorayeb@banqueaudi.com
Lélia Tamer Badro (961-1) 977575 lelia.badro@banqueaudi.com