

# The Lebanon Weekly Monitor

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The Lebanese banking sector continued to post a solid performance at the level of its lending activity year-to-date. Bank loans grew by a healthy US\$ 3.1 billion or 10.8% over the first five months of the year, which is about 3.8 times higher than the average growth recorded over the past eight years.

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## ▶ MARKETS IN BRIEF

### p.6 ▶ **Stability in interest rates on Treasury bills during auctions**

A summer mood swayed over Lebanese capital markets during this week, with the latter being characterized by a slowdown in activity. On the Eurobond market, trading was limited to local participants while foreign investors remained on the sidelines. Local activity was balanced which triggered stability in bond prices week-on-week, while the average spread widened by 14 basis points to reach 271 basis points on the back of a fall in benchmark yields, as unexpectedly high weekly US jobless claims and low consumer confidence sparked demand for safe-haven instruments. In parallel, the equity market was marked by low trading volumes with the total trading value being limited to US\$ 10 million versus US\$ 56 million on average since the beginning of the year 2010. BSE price index retreated slightly by 0.4% as compared to much higher drops of around 4% in other global, emerging and Arabian markets. At the level of the foreign exchange market, FC-to-LP conversions persisted in similar volumes relative to the previous week, which called for the Central Bank's intervention at LP 1,501. On the Treasury bills market, interest rates saw relative stability during this week, in line with the IMF recommendation for a cautious approach to further policy rate reductions. In fact, the average yield on the two-year category remained stable at 5.36%, while it retreated slightly by two basis points to reach 5.86% on the three-year category.

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## ► ECONOMY

### **Lebanese banks witness a strong growth in lending activity in the first five months of 2010**

The Lebanese banking sector continued to post a solid performance at the level of its lending activity over the first five months of this year, in line with the healthy economic activity in the country.

Indeed, lending activity continued along the same upward trend witnessed since the beginning of the year, within the context of relatively improved global credit conditions in a year of gradual recovery across the region's economies and healthy activity in the domestic market. Bank loans, consisting of loans to the Lebanese economy or to regional corporates booked in Lebanon, grew by a healthy US\$ 3.1 billion or 10.8% over the first five months of the year, which is about 3.8 times higher than the average growth recorded over the past eight years. Meanwhile, this growth was almost three times the growth of US\$ 1.0 billion witnessed in the same period of 2008. Bank loans moved from US\$ 28.4 billion at end-December 2009 to US\$ 31.4 billion at end-May 2010.

While LP loans grew by US\$ 981 million between December 2009 and May 2010, around 2.8 times the growth seen during last year's corresponding period, FC loans continued to drive lending activity in Lebanon, accounting for 68.0% of total loan growth during the first five months of the year (a US\$ 3,068 million increase). Consequently, the loan dollarization ratio persisted at previous periods' levels, reaching 82.4% at end-May 2010, down slightly from 84.0% at end-2009. Within the context of dynamic corporate banking policies, loans to non-residents booked in Lebanon rose by US\$ 602 million in the first five months of the year, while the remaining bulk was attributed to resident lending (+US\$ 2,466 million) within the context of a fast growing economy with rising domestic lending opportunities.

On the other hand, banking sector deposits continued to account for a bulky 82.4% of total balance sheet as at end-May 2010, in spite of the fact that the fifth month of the year saw almost no growth in deposits. Indeed, during the month of May, customer deposits went up by a mere US\$ 81 million, compared to a growth of US\$ 997 million during the previous month and an expansion of US\$ 1,728 million during May 2008. Overall, customer deposits grew by US\$ 3.4 billion, or 3.6% in the covered period, moving from US\$ 95.8 billion at end-December 2009 to US\$ 99.2 billion at end-May 2010. Although this growth is lower than the growth of US\$ 6.6 billion witnessed during the same period of the previous year, it is still deemed healthy as it compares to an average growth of US\$ 1.9 billion witnessed in the same period of the previous eight years. As a matter of fact, the year 2009 saw an exceptional growth in deposits triggered by capital flight into the Lebanese banking system, which was seen as a safe haven during the global financial crisis. The analysis of customer deposits by type reveals that the rise in this year's first five months is

attributed to Lebanese residents, whose deposits at Lebanese banks progressed by US\$ 3.6 billion over the period, while those of non-residents retreated slightly by US\$ 157 million.

The analysis of deposits' growth by its different components reveals that growth was mainly triggered by local currency deposits that progressed by US\$ 2,963 million over the covered period, thus accounting for 85.9% of the total rise, while deposits in foreign currency posted a positive albeit more moderate US\$ 485 million rise. As a result, the deposit dollarization ratio continues on its downward path, reaching 62.7% at end-May 2010, its lowest level in nearly 16 years.

As such, the consolidated assets of banks operating in Lebanon, total bank activity grew by US\$ 5.4 billion, or 4.7% in the first five months of 2010, moving from US\$ 115.3 billion at end-December 2009 to US\$ 120.7 billion at end-May 2010, a progression about 26.5% lower than the one seen in the same period of the previous year, yet two times higher than that the average growth recorded over the previous eight years.

### **Lebanon ranks as the fifth largest recipient of FDI in the Arab region in 2009**

The Arab Investment and Export Credit Guarantee Corporation released annual report titled Investment Climate in the Arab Countries for 2009, in which it estimated that foreign direct investments (FDI) in Lebanon reached US\$ 4,804 million in 2009, reporting an increase of 33.2% from US\$ 3,606 million in 2008, and reaching a 10-year record high. Lebanon's share of aggregate Arab foreign direct investments in 2009 reached 5.95% in 2009 versus a lower 3.79% a year earlier.

Lebanon reported the fifth largest recipient of foreign direct capital in nominal terms among eighteen Arab countries covered in the report, after coming in the seventh place in 2008. Indeed, Lebanon came in directly after Egypt with an FDI of US\$ 6,712 million in 2009, the UAE (US\$ 8,550 million), Qatar (US\$ 8,722 million), and Saudi Arabia (US\$ 35,514 million). On the other hand, it surpassed Sudan (US\$ 2,923 million), Morocco (US\$ 2,519 million), Jordan (US\$ 2,384 million), Algeria (US\$ 2,310 million), and Tunisia (US\$ 1,768 million).

As a matter of fact, Lebanon was among the few Arab countries that reported an increase in FDI in 2009. Indeed, out of the 18 Arab countries, only seven countries, namely Lebanon, Iraq, Qatar, Sudan, Morocco, Iraq, Yemen, and Kuwait, saw an increase in their FDI inflow in 2009. This is to the most part attributed to repercussions of the global financial crisis, which resulted in a slowdown in global FDI, at large. The mere fact that Lebanon managed to attract higher FDI in 2009 than it did in the previous year is in fact an indicator of the booming economic performance witnessed in the country in 2009, which in turn lured foreign investors. The 33.2% rise in Lebanon's FDI in 2009, comes as the third highest increase

among Arab countries, following Kuwait (+161%), Iraq (+88.5%), and Yemen (+57.6%). It even compares to a drop of 15.1% in overall FDI into Arab countries during 2009.

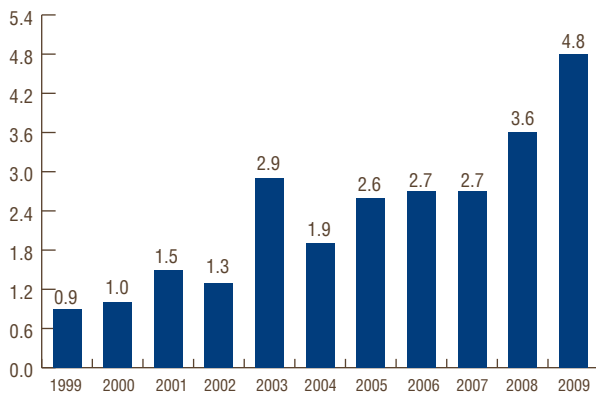
### Foreign Direct Investments (US\$ million)

Recipients	Rank	Amount		Change
		2009	2008	
Saudi Arabia	1	35,514	38,151	-6.9%
Qatar	2	8,722	6,700	30.2%
UAE	3	8,550	13,700	-37.6%
Egypt	4	6,712	9,495	-29.3%
<b>Lebanon</b>	<b>5</b>	<b>4,804</b>	<b>3,606</b>	<b>33.2%</b>
Sudan	6	2,923	2,601	12.4%
Morocco	7	2,519	3,608	-30.2%
Jordan	8	2,384	2,826	-15.6%
Algeria	9	2,310	2,280	1.3%
Tunisia	10	1,768	2,726	-35.2%
Syria	11	1,514	2,116	-28.4%
Iraq	12	920	488	88.5%
Libya	13	844	4,111	-79.5%
Yemen	14	655	416	57.6%
Bahrain	15	257	1,794	-85.7%
Kuwait	16	146	56	161.4%
Djibouti	17	99	253	-60.8%
Mauritania	18	84	109	-23.2%
<b>Total</b>		<b>80,725</b>	<b>95,035</b>	<b>-15.1%</b>

Sources: Arab Investment and Export Credit Guarantee Corporation, Bank Audi Research Department

Historically and on a cumulative basis, FDI in Lebanon totaled US\$ 25,821 million during the 1999-2009 period, accounting for 5.8% of aggregate Arab FDI in the covered period, averaging US\$ 2,582 million per year and growing at a compound annual growth rate (CAGR) of 18.6%. Overall, Lebanon was the fifth largest recipient of FDI during the 1999-2009 period, after Saudi Arabia which captured some US\$ 132.4 billion over the said 10 years accounting for 29.9% of the region's foreign investment flows, the UAE with US\$ 75.4 billion (17.0%), Egypt which came in third with US\$ 49.0 billion (11.0%), and Qatar with US\$ 29.2 billion (6.5%).

### FDI in Lebanon (US\$ billion)



Sources: Arab Investment and Export Credit Guarantee Corporation, Bank Audi Research Department

### Balance of payments surplus at US\$ 1,208 million in the first five months of 2010

Figures released by the Central Bank of Lebanon show that Lebanon's cumulative balance of payments, which mirrors net foreign assets in the country, registered a surplus of US\$ 1,207.7 million in the first five months of 2010, down by 27.1% from US\$ 1,658.1 million in the same period of 2009. Up until end-April 2010, the balance of payments was on the up rise, registering record high levels, nonetheless the month of May 2010 saw a balance of payments deficit of US\$ 194.8 million, triggered by the slowdown in deposit activity. Still, it is worth noting that the balance of payments surplus in this year's first five months is deemed significant and its decline could be partly attributed to the record high base registered in the same period of 2009.

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The cumulative surplus in the first five months of 2010 is the result of a rise of US\$ 2,115.3 million in net foreign assets of the Central Bank, which more than offset the decline of US\$ 907.6 million in those of banks and financial institutions.

### Capital inflows remain almost stable year-to-date

Capital flowing into Lebanon in the first five months of 2010 remained somewhat constant, yet managed to more than fully cover Lebanon's structural trade deficit, thereby resulting in a substantial balance of payments surplus in the said period. As a matter of fact, capital inflows in the latter period were at a record high when compared to the same period of previous years, reaching US\$ 6.6 billion, rising by a trivial 1.7% relative to the same period of 2009.

It is worth noting however that the pace of growth of capital inflows has somewhat moderated especially when compared to the growth of 57.1% witnessed in the first five months of 2009. This could be attributed to the already high base recorded in 2009 and to the current global recovery, which has left other countries in the region attracting capital inflows, contrary to the situation in 2009 when Lebanon was one of the few countries that escaped the ravages of the crisis.

Indeed, the stability of capital flowing into the country was buoyed by the increased confidence in the Lebanese economy, be it by Lebanese expatriates or by non-Lebanese investing in Lebanon, as capital inflows include remittances, foreign direct investment (FDI), and spending of tourists in Lebanon. No official data on the former two are currently available, yet the IMF anticipated in its latest report on Lebanon that remittances and FDI flowing into the country would increase in 2010 as countries across the region and the globe begin to recover from the global financial crisis.

## ► SURVEY

### Lebanon leads the MENA region in terms of total insurance premiums to GDP in 2009

Leading global reinsurer Swiss Re lately issued its “World Insurance in 2009” annual report covering the insurance sector across 159 countries in the world, in which it ranked Lebanon 48th globally and first in the Middle East and North Africa region in terms of total insurance premiums to GDP in 2009. The country maintained the lead in the MENA region for the fifth year in a row.

Total insurance premiums to GDP is also known as insurance penetration, and Lebanon’s penetration rate was 3.1%, compared to 3.4% last year. In the region, Lebanon ranked ahead of Morocco with 2.8% (50th worldwide), the United Arab Emirates with 2.5% (55th), and Jordan with 2.3% (56th).

The MENA average insurance penetration ratio stood at 1.7%, but remained far from the world average of 7.0%, thus reflecting a strong potential for further expansion. Meanwhile, Lebanon’s ratio signifies that the sector is well developed in the country when looking at it within a regional context.

In terms of insurance density, defined as the total insurance premiums per capita, Lebanon came in the fourth position in the MENA region (51st worldwide) with US\$ 225.5, ranking after the UAE with US\$ 1,111.8 (31st worldwide), Bahrain with US\$ 624.8 (36th) and Qatar with US\$ 548.6 (38th).

In terms of total premiums, the survey ranked Lebanon 64th in the world, with US\$ 952 million in total premiums reported in 2009, up by 8.1% from US\$ 881 million in premiums reported in the previous year. Out of the 12 MENA countries, Lebanon came in the fifth position, ahead of Algeria (70th worldwide), Qatar (72nd), Tunisia (74th), Oman (78th), Jordan (84th), Bahrain (86th), and Kuwait (87th), while trailing the United Arab Emirates (45th), Saudi Arabia (48th), Morocco (53rd) and Egypt (57th).

In Lebanon, life premiums accounted for 24.4% of total premiums in 2009 with US\$ 232 million, versus a higher 32.9% in the previous year, while the non-life business, or general insurance market, continued to represent the bulk of insurance activity in Lebanon, with 75.6%, or US\$ 720 million, against a lower 67.1% in 2008. Here, one should note that life premiums in Lebanon declined by a yearly 20% in 2009, while non-life premiums grew by an annual 22% in 2009. Still, the life insurance segment seems quite developed in Lebanon compared to the rest of the MENA region, as life insurance activity accounted for 17.8% of the total MENA insurance mar-

ket size in 2009. Naturally, the non-life insurance market continued to account for the majority of the MENA insurance activity, with a share of 82.2%.

Lebanon’s insurance premiums accounted for 5.1% of total premiums in the MENA region in 2009. The MENA insurance industry reached US\$ 18.5 billion in size, growing by 5.4% in nominal terms.

The growth of Lebanon’s insurance industry of 8.1% was higher than the growth in the region’s industry, and surpassed the real growth rate of the emerging countries’ insurance market which stood at 3.5%, while it far outpaced the negative real growth of the world’s industry (-1.1%) and the negative real growth of industrialized countries’ insurance market (-1.8%). Indeed, the sector in Lebanon saw a healthy growth rate last year, undeterred by the impact of the global financial crisis.

The growth in the insurance sector in Lebanon in 2009 has naturally led to a yearly advancement in other aggregates of the sector cited by the Swiss Re. While insurance penetration decreased slightly to 3.1% in 2009 from 3.4% the year before, insurance density went up by 6.1% from US\$ 212.6 to the current US\$ 225.5.

Growth in the insurance sector in Lebanon in 2009 was spurred by an expansion of the non-life insurance segment which recorded a significant 22% growth, much higher than the MENA average growth of 4.4%, with the non-life insurance segment representing the bulk of the insurance industry in Lebanon. However, the life insurance segment in Lebanon declined by 20% year-on-year, compared to a slowdown in the world average growth of 4.4%.

#### MENA Insurance Market Indicators (Year 2009)

Country	Total Premiums (in US\$ million)	Ins. Density (in US\$)	Ins. Penetration (in % of GDP)
<b>Lebanon</b>	<b>952</b>	<b>225.5</b>	<b>3.1%</b>
Morocco	2,583	80.7	2.8%
UAE	5,113	1,111.8	2.5%
Jordan	510	80.7	2.3%
Bahrain	494	624.8	2.3%
Tunisia	758	73.8	1.9%
Oman	627	220.4	1.2%
Saudi Arabia	3,896	151.5	1.0%
Qatar	773	548.6	0.8%
Egypt	1,565	18.9	0.8%
Algeria	797	22.9	0.6%
Kuwait	457	153.0	0.5%
<b>MENA</b>	<b>18,525</b>	<b>276</b>	<b>1.7%</b>
<b>World</b>	<b>4,066,095</b>	<b>595.1</b>	<b>7.0%</b>

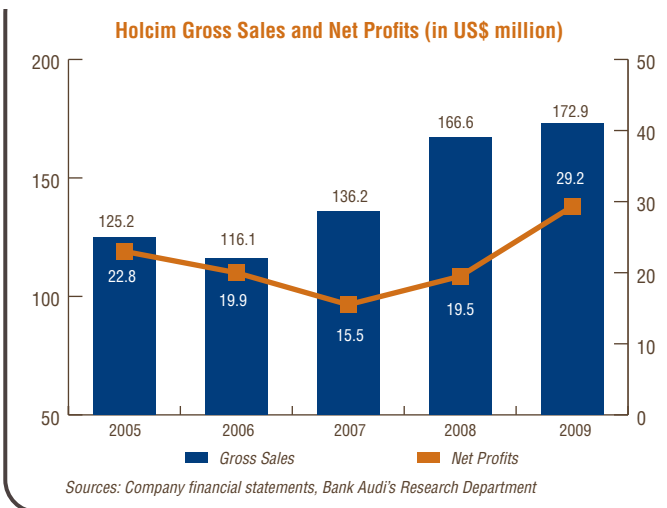
Sources: Swiss Re, Bank Audi’s Research Department

## ► CORPORATE NEWS

### Holcim Liban declares net profits of US\$ 29.2 million in 2009

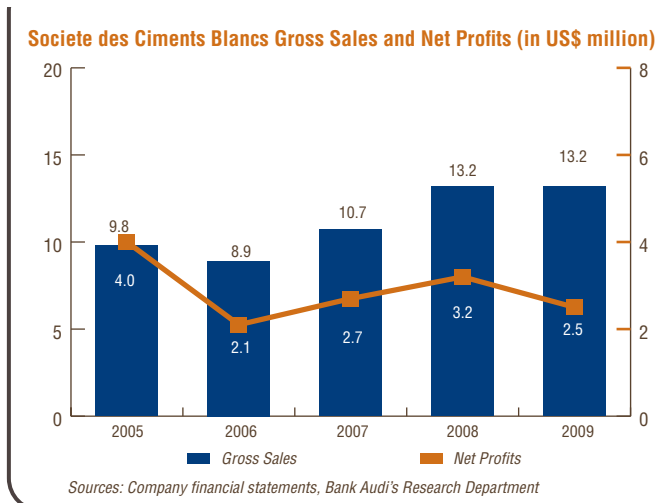
Holcim Liban, one of Lebanon's leading cement producers, declared net profits of US\$ 29.2 million in 2009, up by 49.6% from US\$ 19.5 million in 2008. Gross sales reached US\$ 172.9 million in 2009, up by 3.8% from US\$ 166.6 million in 2008. Distribution and selling expenses decreased by 11.9%, from US\$ 16.7 million in 2008 to US\$ 14.7 million in 2009, while administrative expenses decreased by 39.8%, from US\$ 6.4 million in 2008 to US\$ 3.8 million in 2009. Gross profits amounted to US\$ 57.7 million in 2009, up by a yearly 9.2%.

Total assets stood at US\$ 298.9 million in 2009, against US\$ 312.7 million in 2008. Shareholders' equity stood at US\$ 209.5 million at year-end 2009, up by 5.9% from US\$ 197.8 million at year-end 2008.



### Société Libanaise des Ciments Blancs posts net profits of US\$ 2.5 million in 2009

Lebanese cement company Société Libanaise des Ciments Blancs sal, majority owned by Holcim Liban, posted net profits of US\$ 2.5 million in 2009, against US\$ 3.2 million



in 2008. Gross sales amounted to US\$ 13.2 million in 2009, remaining practically unchanged from 2008. Distribution and selling expenses increased by 1.8%, from US\$ 781.6 thousands in 2008 to US\$ 795.4 thousands in 2009, while administrative expenses rose by 39.7%, from US\$ 535.2 thousands in 2008 to US\$ 747.5 thousands in 2009. Gross profits amounted to US\$ 3.8 million in 2009, against US\$ 4.6 million in 2008.

Total assets reached US\$ 19.1 million at year-end 2009, against US\$ 19.4 million at year-end 2008. Shareholders' equity stood at US\$ 15.2 million at year-end 2009, against US\$ 15.5 million at year-end 2008.

### Global Blue to implement online tax free shopping in Lebanon in August 2010

Global Blue, the inventor of online tax free shopping, plans to implement its technology in the Lebanese market in August 2010.

Online tax free shopping allows customers to purchase goods and services online without paying any tax normally collected at retail, such as sales tax, value added tax (VAT), among others.

Global Blue would allow tourists to conduct tax free shopping, which, according to company executives, would place Lebanon far ahead of the region in terms of the capabilities of retailers and public sector officials. Further, the technology allows retailers and customs officials to use digitalized data to strategize and improve their marketing and decision-making respectively.

The digital tax free shopping technology has only been implemented in Finland so far, making Lebanon a leader in this domain, as per company statements.

Following the announcement of the Global Blue launching, the Ministry of Finance stressed the significance of streamlining administrative processes and taking Lebanon online. According to officials, Global Blue's technology would enhance the tourist experience, working to boost tourist numbers and the amounts they spend in the country.

Global Blue is a financial services company that facilitates retail transactions between merchants and their foreign customers with over 270,000 retailers in 40 countries. The company invented the concept of Tax Free Shopping thirty years ago and now offers a wide range of services including dynamic currency conversion, marketing services, transaction solutions, and publishing networks.

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## ► CAPITAL MARKETS

### First weekly drop in LP money supply in two years

The money market saw no change in the overnight rate, as it remained stable at its low official level of 2.75% set by the Central Bank of Lebanon, in view of continuous FC-to-LP conversions on the foreign exchange market.

As to short-term Certificates of Deposits, the Central Bank of Lebanon sold during this week LP 88 billion in the 60-day category, bringing the total subscriptions since the beginning of the year 2010 to LP 2,181 billion. Total subscriptions are distributed as follows: LP 336 billion in the 45-day category and LP 1,845 billion in the 60-day category. Interest rates on the 45-day and 60-day categories remained unchanged during this week, standing at 3.57% and 3.85% respectively.

On the monetary aggregates level, figures for the week ending 17th of June 2010 indicated an increase of LP 24 billion in local currency deposits, as a result of a growth of LP 112 billion in LP time deposits and a LP 88 billion decline in LP demand deposits week-on-week. Deposits in foreign currencies rose by US\$ 277 million. These weekly variations compare to an average weekly increase of LP 199 billion for LP deposits since the beginning of the year 2010, and an average weekly rise of US\$ 23 million in foreign currency deposits. Within this context, LP money supply (M2) shrank by LP 56 billion during the week ending 17th of June 2010, noting that this is the first time in two years that the LP money supply tightens. This compares to an average weekly increase of LP 201 billion since the beginning of the year 2010. In addition, total money supply in its large sense (M4) widened by LP 357 billion week-on-week, as compared to an average weekly increase of LP 243 billion since the beginning of the year 2010.

On a cumulative basis, money supply in its large sense (M4) widened by LP 6,137 billion since the beginning of the year 2010. This is the result of an increase in local currency denominated time deposits of LP 4,830 billion, a rise in foreign currency deposits of LP 1,323 billion (the equivalent of US\$ 878 million), a decline in money supply (M1) of LP 185 billion, and a growth in Treasury bills held by the public of LP 169 billion since the beginning of the year 2010.

### Treasury Bills Market: Yields on two-year and three-year categories remain stable

All categories were traded on the secondary Treasury bills

Interest rates	02/7/10	25/6/10	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% ↔

market, especially the medium-term and long-term categories in moderate volumes.

As to the primary market, the preliminary results of this week's auction (June 30, 2010) showed that the average yield on the one-year category declined by nine basis points to reach 4.79%, while the average yield on the two-year category remained unchanged at 5.36%. The average yield on the three-year category retreated slightly by two basis points to reach 5.86%.

It is worth mentioning that the Central Bank of Lebanon allowed commercial banks to subscribe to 50% of their accepted bids in the one-year category, while it allowed public institutions to subscribe to 10% of their bids in the same category. In addition, it allowed commercial banks to subscribe in full of their bids offering a yield up to 5.30% in the two-year category, and to 50% of their bids offering a yield between 5.31% and 5.38%, while it allowed public institutions to subscribe to 10% of their bids in the same category. As to the three-year category, the Central Bank allowed commercial banks to subscribe to 50% of their accepted bids, while it allowed public institutions to subscribe to 10% of their bids in the same category.

On the other hand, the Central Bank of Lebanon released this week the auction results for value date June 24, 2010 which showed that total subscriptions amounted to LP 232 billion, and were distributed as follows: LP 33 billion in the three-month category, LP 63 billion in the six-month category and LP 136 billion in the five-year category. These compare to maturities of LP 265 billion, resulting in a nominal deficit of LP 33 billion.

### Foreign Exchange Market: Small decline in BDL's foreign assets during the second half of June 2010

FC-to-LP conversions continued on the foreign exchange

Treasury bills	02/7/10	25/6/10	31/12/09
3-month	3.94%	3.94%	4.55% ↔
6-month	4.43%	4.43%	5.72% ↔
1-year	4.79%	4.88%	5.73% ↓
2-year	5.36%	5.36%	6.32% ↔
3-year	5.86%	5.88%	7.10% ↓
5-year	6.16%	6.16%	7.74% ↔
Nom. Subs. (LP billion)		232	500
Short-term (3&6 mths)		96	-
Medium-term (1&2 yrs)		-	49
Long-term (3 yrs)		-	451
Long-term (5 yrs)		136	-
Maturities		265	232
Nom. Surplus/Deficit		-33	268

market during this week, in similar volumes relative to the previous week. The interbank market was underpinned by a shy demand for the green currency, with the LP/US\$ interbank rate hovering between LP 1,501.00 and LP 1,501.75. Within this context, the Central Bank of Lebanon intervened as buyer of the US Dollar surpluses at the lower end of its intervention bracket (LP 1,501).

On the other hand, the Central Bank's latest bi-monthly balance sheet ending June 30, 2010 showed a decline in foreign assets of US\$ 43 million during the second half of June to hit US\$ 30.35 billion at end-June 2010. Accordingly, BDL's foreign assets covered 81.5% of LP money supply at end-June 2010, with this coverage ratio rising to 112.3% when accounting for gold reserves estimated at US\$ 11.5 billion. In addition, the Central Bank's foreign assets covered 21.3 months of imports. These ratios show the Central Bank's ability to meet demand for foreign currencies and defend the currency peg.

Exchange rates	02/7/10	25/6/10	31/12/09
LP/US\$	1,507.5	1,507.5	1,507.5 ↔
LP/£	2,292.00	2244.97	2,389.24 ↓
LP/¥	17.14	16.82	16.34 ↓
LP/SF	1,410.86	1366.60	1,451.33 ↓
LP/Can\$	1,423.11	1444.80	1,436.12 ↑
LP/Euro	1,885.28	1851.96	2,159.95 ↓

### Stock Market: The BSE price index down by 0.4%

The Beirut Stock exchange continued to be marked by a slow activity, with the total number of shares traded reaching 1,582,825 shares this week as compared to 1,824,788 shares last week. The total trading value was limited to US\$ 10.0 million versus US\$ 12.5 million last week. The average daily trading value amounted to US\$ 2.5 million last week, down from US\$ 2.5 million this week, which translated into a 19.7% fall in the trading volume index to reach 73.76. As to prices, share prices retreated slightly week-on-week, as shown by a 0.4%

Audi Indices for BSE	02/7/10	25/6/10	31/12/09
<i>22/1/96=100</i>			
Market Cap. Index	495.13	497.06	505.10 ↓
Trading Vol. Index	73.76	91.82	115.58 ↓
Price Index	139.26	139.80	144.04 ↓
Change %	-0.39%	-1.26%	0.91% ↓
Market Cap. \$m	11,746	11,792	11,983 ↓
No. of shares traded	1,582,825	1,824,788	248,012 ↓
Value Traded \$000	10,004	12,458	6,434 ↓
o.w. : Solidere	4,652	4,061	2,055 ↓
Banks	5,345	7,755	4,375 ↑
Others	7	642	4 ↓

decline in the price index to close at 139.26.

In details, Solidere shares accounted for 46% of activity this week, with a trading value of US\$ 4.7 million. Solidere "A" and "B" share prices retreated by 1.1% to close at US\$ 22.53 and US\$ 22.49 respectively.

As to the banking shares, they accounted for 53% of activity this week, registering a total trading value of US\$ 5.3 million. In details, Bank Audi's "listed" share price declined by 0.6% to US\$ 8.15, while Bank Audi's GDR price moved up by 1.1% to close at US\$ 8.34. BLOM's GDR price dropped by 1.7% to US\$ 88.40, and BLOM's "listed" share price nudged down by 0.7% to US\$ 87.40. In contrast, Byblos Bank's "listed" share price rose by 0.6% to US\$ 1.78, while Byblos Bank's "priority" share price declined by 1.1% to US\$ 1.80. Among the industrial shares, Holcim's share price declined by 1.9% to US\$ 13.68.

As compared to other emerging stock markets, the BSE posted lower decline in prices week-on-week, as shown by a 4.0% drop in the Morgan Stanley Capital International Emerging Market Free Index (MSCI EM). Likewise, the BSE reported lower decrease in prices than other Arabian and GCC equity markets, as reflected by a 4.2% decrease in the Morgan Stanley Capital International Arabian Markets Index (MSCI Arabian Markets) and 4.4% drop the Morgan Stanley Capital International GCC Countries Index (MSCI GCC Countries Index).

### Bond Market: Foreign investors on the sidelines

Only local market players traded Lebanese debt papers during this week, with foreign investors remaining on the sidelines. Local demand was observed in small volumes during this week and it was met by enough supply, which triggered stability in bond prices, as shown by a very tiny rise in the average yield of two basis points to reach 4.62%. The average bond spread widened remarkably by 14 basis points week-on-week, on the back of a drop in benchmark yields.

For instance, the average yield on five-year US Treasury bills declined from 1.95% last week to 1.80% this week, as unexpectedly high weekly US jobless claims and low consumer confidence boosted demand for safe-haven instruments.

Eurobonds Indicators	02/7/10	25/6/10	31/12/09
Total tradable size \$m	17,842	17,829	17,704 ↑
o.w.: Sovereign bonds	17,372	17,359	17,134 ↑
Average Yield	4.62%	4.60%	5.31% ↑
Average Spread	271	257	290 ↑
Average Life	4.77	4.77	4.57 ↔
Yield on US 5-year note	1.80%	1.95%	2.62% ↓

Week  
**27**  
Jun 28 - Jul 4  
2010

**ARAB STOCK MARKETS INDICES:**

	2-Jul-10	25-Jun-10	31-Dec-09	Weekly change	End-year-to-date change
Lebanon	139.3	139.8	144.0	-0.4%	-3.3%
Jordan	132.8	134.2	149.9	-1.0%	-11.4%
Egypt	745.2	780.0	784.9	-4.5%	-5.1%
Saudi Arabia	388.3	406.7	389.3	-4.5%	-0.3%
Qatar	612.6	629.6	611.1	-2.7%	0.3%
UAE	190.6	201.9	229.3	-5.6%	-16.9%
Oman	836.5	846.4	837.2	-1.2%	-0.1%
Bahrain	256.9	272.4	331.9	-5.7%	-22.6%
Kuwait	545.0	570.7	554.5	-4.5%	-1.7%
Morocco	420.7	424.3	417.0	-0.8%	0.9%
Tunisia	1,166.7	1,143.1	1174.1	2.1%	-0.6%
Arabian Markets	459.9	479.9	470.5	-4.2%	-2.2%

Sources: MSCI Barra, Bank Audi's Research Department

**INTERNATIONAL MARKET INDICATORS:**

	2-Jul-10	25-Jun-10	31-Dec-09	Weekly change	End-year-to-date change
<b>EXCHANGE RATES</b>					
YEN/\$	87.74	89.38	92.46	-1.8%	-5.1%
\$/£	1.518	1.499	1.589	1.3%	-4.5%
\$/Euro	1.254	1.235	1.432	1.5%	-12.5%
<b>STOCK INDICES</b>					
DOW JONES INDUSTRIAL AVERAGE	9,686.48	10,143.81	10,548.51	-4.5%	-8.2%
S&P 500	1,022.58	1,076.76	1,126.42	-5.0%	-9.2%
NASDAQ	2,091.79	2,223.48	2,291.28	-5.9%	-8.7%
CAC 40	3,348.37	3,519.73	3,935.50	-4.9%	-14.9%
Xetra Dax	5,834.15	6,070.60	5,957.43	-3.9%	-2.1%
FT-SE 100	4,838.09	5,046.47	5,397.90	-4.1%	-10.4%
NIKKEI 225	9,203.71	9,737.48	10,546.44	-5.5%	-12.7%
<b>COMMODITIES</b>					
GOLD OUNCE	1,210.60	1,254.50	1,095.70	-3.5%	10.5%
SILVER OUNCE	17.82	19.03	16.83	-6.4%	5.9%
BRENT CRUDE (barrel)	71.85	77.82	77.66	-7.7%	-7.5%
<b>LEADING INTEREST RATES (%)</b>					
1-month Libor	0.35	0.35	0.23	0.00	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	2.98	3.12	3.84	-0.13	-0.86

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