TheLebanonWeeklyMonitor

Week 28
Jul 5 - Jul 11
2010

ECONOMY

p.2 ▶ Fiscal deficit down by 39% in the first five months of 2010

The slight rise in revenues combined with a higher decrease of expenditures led to a 39% decline in the overall deficit which totaled LP 1,303 billion in the first five months of 2010.

SURVEY

p.4 ▶ IIF reiterates the need for stronger fiscal reforms

A recent study from the Institute of International Finance (IIF) noted that the implementation of fiscal reforms and larger primary surpluses are essential to accelerate the decline in the debt-to-GDP ratio of Lebanon to more sustainable levels.

CORPORATE NEWS

p.5 ▶ Beirut Water Taxi project to be launched in Lebanon

The US$ 50 million Beirut Water Taxi project aims at reducing traffic on the coastline by establishing a maritime commuter system, extending between Beirut and Tripoli, Byblos, Jounieh, Damour, Saida, Tyr and Naqqoura.

MARKETS IN BRIEF

p.6 ▶ Slowdown in activity and stability in prices in Lebanese capital markets

Lebanese capital markets saw a slowdown in activity and stability in prices during this week. On the equity market, stock prices remained unchanged week-on-week, as shown by a very tiny decline in the BSE price index of 0.04% to close at 139.21. The total trading value amounted to US$ 50 million this week, including cross trades totaling US$ 43 million on BLOM shares and GDRs, which continues to highlight the sluggish mood governing the BSE. As to the Eurobond market, activity continued to be shy during this week. In fact, a local and foreign demand appeared in small volumes and it was partially met by a local offer. Bond prices remained stable week-on-week, as reflected by a steady average yield at 4.62%. The average bond spread tightened by six basis points to reach 265 basis points, mainly due to a drop in benchmark yields. On the FX market, FC-to-LP conversions continued during this week, yet in lower volumes relative to the previous week. Activity was almost absent on the interbank market, while the Central Bank of Lebanon intervened as a buyer of the green currency surpluses at the lower end of its intervention bracket. (LP 1,501.00). At the level of the Treasury bills market, the average yield on the three-month and five-year categories remained stable at 3.93% and 6.16% respectively, while the average yield on the six month category rose by six basis points to 4.49%.

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ECONOMY

Fiscal deficit down by 39% in the first five months of 2010

Public finance figures for the first five months of the year, as released by the Ministry of Finance, show a deficit to expenditures ratio of 19.5%, contracting substantially from the 29.1% figure reported over the same period of 2009. This improvement is attributable to a drop in total expenditures coupled with a slight rise in total revenues. Here, it is worth noting that such improving public finance figures come in spite of a budget that assumed a rise in expenditures and a deterioration in the overall fiscal deficit. This is mainly due to the delay in approving the budget (June 2010), and thus figures for the first five months of the year do not incorporate measures specified in the 2010 budget.

On the income front, public revenues which include budget and Treasury receipts, increased by 4.4% relative to the same period of 2009, thereby reaching LP 5,386.0 billion in the first five months of 2010. Treasury revenues registered a rise of LP 45.4 billion to attain LP 270.5 billion, up by a yearly 20.2%. The increase of treasury income stems from the 88.7% increase in total guarantees and the 21.2% rise in municipalities resources.

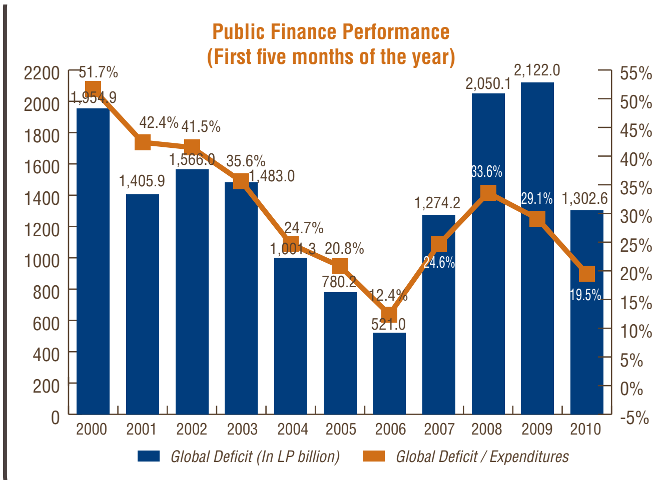
As to budget revenues, they moved up by a weaker 3.6% to reach LP 5,115.4 billion, as tax revenues rose by 22.1% while non-tax revenues dropped by 42.4%. Total tax revenues, which totaled LP 4,300.4 billion, edged up due to a year-on-year rise of 45.2% in miscellaneous tax revenues, 12.5% in VAT revenues mirroring amelioration in aggregate private consumption and 5.5% in customs revenues, reflecting a rise in receipts from increased international trade.

On the spending side, total public expenditures, which include budgetary and Treasury spending, diminished by a yearly 8.2% in the first five months of 2010 to attain LP 6,688.6 billion, caused chiefly by a contraction of 39.6% in treasury expenditures along with a weak increase of 5.9% in budgetary related expenditures.

Treasury expenditures reached LP 1,359.2 billion in the first five months of 2010, and their decrease is mostly due to a contraction of 82.8% in guarantees' expenditures, which totaled LP 42.9 billion, a drop of 5.8% in spending by municipalities, which amounted to LP 126.6 billion, and a 40.2% reduction in transfers to the electricity company which amounted to LP 805.5 billion. It is worth noting the positive aspect of the drop in transfers to the electricity company as they account for about 60% of treasury expenditures. As payments to the two oil suppliers, Kuwait Petroleum Corporation and Algeria's Sonatrack, are made with a lag of six months, the decline in transfers to the EDL during the first five months of this year is largely explained by lower oil prices in the third quarter of 2009 as compared to the third quarter of 2008.

In parallel, budgetary expenditures reached LP 5,329.5 billion. Interest payments on domestic and foreign debt, posted a total of LP 2,461.7 billion in the first five months of 2010, increasing by 2.0% relative to the same period of 2009. The rise was spurred by a an increase of 4.6% on local currency debt, which more than offset the 1.9% drop in interest payments on foreign currency debt. As for principal foreign debt repayment, it amounted to LP 68.5 billion over the first five months of 2010, relative to LP 53.4 billion during the same period of last year. Non-interest budgetary spending went up by 9.0% year-on-year to reach LP 2,799.2 billion over the aforementioned period of this year.

The slight rise in revenues combined with a significantly higher decrease of expenditure led to a 38.6% decline in the overall deficit which totaled LP 1,302.6 billion in the first five months of 2010. When excluding debt service, the primary surplus reached LP 1,227.6 billion, up by a significant 256.8% year-on-year.



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

Property market continues to boom in the first five months of 2010

Lebanon's property sector has demonstrated a strong performance and continued to grow over the first five months of 2010, benefitting from increased remittances from Lebanese non-residents, population growth, and vigorous tourism. According to data released by the Directorate of Real Estate, the first five months of 2010 saw continued growth in the number of property sales transactions, along with an increase in value of such transactions.

To that point, the number of property sales transaction went up by 39.5% in the first five months of 2010 to reach 37,663 transactions, a record high compared to the same period of previous years. Further, there was a 10.7% surge in sales transactions to foreigners, which is lower than the 16.8% surge witnessed in the same period of last year; however proving a continued interest by foreigners in buying Lebanese property.

As to the value of the property sales, it reached a record high of LP 5,758.6 billion in the first five months of 2010, up by 105.4% compared to the same period of last year, indicating a significant upsurge in property prices in Lebanon, within the context of rising demand for realty. The significant increase in the value of property sales transactions relative to a lower rise in the number of such transactions has resulted in a rise of 47.2% in the average value per property sale, which attained LP 152.9 million in the first five months of 2010.

Significant growth in construction activity in the first five months of 2010

Figures released by the Orders of Engineers of Beirut and Tripoli indicate that the area of newly issued construction permits reached 6.7 million square meters in the first five months of 2010, up by 58.4% from the same period of 2009. Not only does this significant growth in construction activity constitute an important driver of economic activity in the country, it also prolongs the real estate boom currently witnessed in the country, as it suggests that contractors are indeed launching new projects to cater for the high demand for real estate in the country.

The statistics for the first five months of 2010 showed that the majority of those construction permits (55.2%) were issued in Mount Lebanon, where real estate projects are usually medium-scale, targeting the majority of Lebanese residents. The area was followed by the South, which captured 14.6% of newly issued construction permits, the North (14.5%), Beirut (9.7%), and the Bekaa (6.1%).

Payment card statistics on an upward trend in the first four months of 2010

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1.7 million cards as at end-April 2010, up by 4.0% relative to the same period of the previous year, with resident cardholders accounting for 97.2% of total cards issued in Lebanon. As to the number of ATMs, it went up by 7.7% during the said period.

The distribution of payment cards by type shows that debit cards with residents accounted for 63.1% of the total, followed by credit cards with residents (21.3%), charge cards with residents (10.1%), resident prepaid cards (2.6%), non-resident debit cards (2.3%), non-resident charge cards (0.4%), and non-resident credit cards (0.2%).

The average monthly domestic payment by residents using payment cards amounted to US$ 103.5 million in the first four months of 2010, up by 31.4% from the same period of 2009, which denotes an acceleration from the growth of 16.3% recorded in the first four months of 2009 relative to the same period of 2008. The average monthly value of cash withdrawals by residents using ATMs reached US$ 383.1 million in the first four months of 2010, up by 8.7% relative to the same period of the previous year. Meanwhile, the average monthly payment inside Lebanon by non-residents went up by 1.7% in the first four months of 2010 to reach US$ 1.7 million, whereas the average monthly ATM withdrawals by non-residents surged by 12.7% year-on-year to reach US$ 5.6 million in the first four months of 2010.

The growth in payment card statistics of Lebanese residents reflect a rise in domestic demand in Lebanon and is in fact an indicator that Lebanese consumers are displaying a higher propensity to spend. Moreover, the rise in ATM withdrawals by non-residents is in line with the surge in tourism activity in the country.

Local card payments in LP accounted for 12.1% of total payments in all currencies in the first four months of 2010, up from a share of 11.9% in the same period of 2009, whereas 66.6% of withdrawals were in local currency in the first four months of 2010 against a share of 67.5% in the first four months of 2009.

Beirut ranks 80th worldwide and 4th in the MENA region in cost of living

According to the cost of living survey by Mercer Human Resource Consulting, Beirut ranked as the 80th most expensive city worldwide in 2010, out of 214 cities included in the survey, while it ranked 41st last year out of 143 countries worldwide. Beirut ranked 4th most expensive across 19 surveyed MENA cities, unchanged from last year when it ranked in 4th position across 12 cities in the region.

The survey measures the comparative cost of over 200 items in each location, including housing, transport, food, clothing, household goods and entertainment. The cost of housing, often the largest expense for expatriates, has an important role in determining where cities are ranked. New York is used as the base city for the index and all cities are compared against New York.

In the region, Beirut ranked ahead of Amman, Cairo and Casablanca and directly after Djibouti, Dubai and Abu Dhabi. Among the 214 cities covered globally in the survey, Beirut came behind Yaoundé in Cameroon, Taipei in Taiwan, and Toronto in Canada, while it ranked ahead of Stuttgart in Germany, Riga in Latvia and White Plains in the United States.

IIF reiterates the need for stronger fiscal reforms

A recent report released by the Institute of International Finance (IIF) indicated that continued stable political and security environment is sustaining growth at 8-9%, driven by the boom in construction, tourism, and financial services. However, the Institute stated that while vulnerabilities have declined, they remain very high given the large public debt burden. Progress in fiscal and structural reforms has been limited. Meanwhile, the current favorable environment of rapid growth, low global interest rates, and abundant liquidity in the Lebanese banking system is unlikely to persist over the medium term. The report noted that avoiding complacency and building consensus on reforms combined with continued stable political environment could sustain a growth rate of about 5% beyond 2010 and bring down government debt to more sustainable levels.

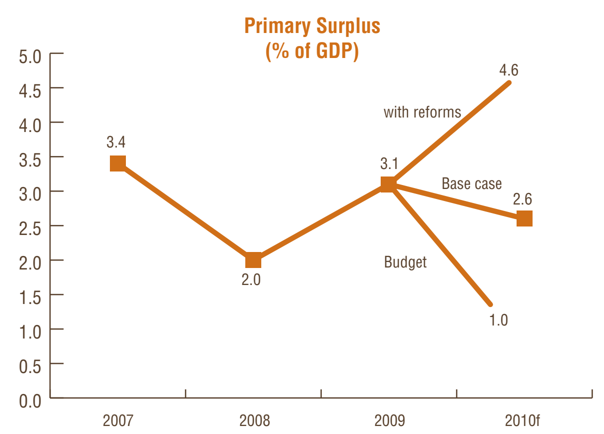
The report indicated that the 2010 budget, which was endorsed by the Cabinet on June 18 and still needs to be ratified by the Parliament, does not aim for a significant primary surplus that could have been achieved with the implementation of the long-delayed reforms. While the budgeted substantial increase in capital expenditure may be warranted, it is unfortunate that revenue-enhancing measures in the budget are not ambitious and fall well short of the requirements in the Paris III agenda. Larger primary surpluses are needed for a more rapid decline in the government debt-to-GDP ratio, which remains one of the highest in the world.

The study noted that one of the main reforms that are indispensible to fiscal consolidation and reduction in debt would be the rehabilitation of the electricity company EDL. Lowering the budgetary support to EDL would pave the way for achieving fiscal sustainability, stimulating economic activity, and reducing the need to raise the tax burden in the future. Transfers to EDL amounted to US$ 1.5 billion in 2009 (equivalent to 4% of GDP or 13% of total expenditures). On June 22, 2010, the government approved a plan to reform the EDL. The reform aims to boost production of electricity and reduce cost. The new policy is expected to close the existing generating capacity gap by 2014. This would require an investment of US$ 4.8 billion, which is expected to be financed by the government (US$ 1.5 billion), the private sector (US$ 2.3 billion), and international donors (US $1.7 billion).

Moreover, the report noted that some progress has been made in reducing the fiscal deficit due to strong growth in government revenues. The overall fiscal deficit (excluding grants) narrowed from 9.9% of GDP in 2008 to 8.6% of GDP in 2009 and the primary surplus improved from 1.3% of GDP to 2.6% during the same period. Strong real GDP growth, combined with the reintroduction of gasoline excise taxes, led to an increase of 25% in tax receipts. Excluding the increase in gasoline excises, the tax revenues rose by 13% in 2009. While wages and pensions increased by 24%, total expenditures grew by 15% in 2009 due to a decrease in transfer to EDL as a consequence of lower oil prices.

Meanwhile, in 2010 so far, revenues are still on the uprise, while expenditures have remained somewhat subdued, due to delays in approval of the draft budget and a substantial decline in budgetary transfers to the EDL. As payments to the two oil suppliers, Kuwait Petroleum Corporation and Algeria's SONATRACH, are made with a lag of six months, the decline in transfers to the EDL during the first four months of this year is largely explained by lower oil prices in the third quarter of 2009 as compared with the third quarter of 2008. Consequently, the primary surplus in the first four months of this year widened to the equivalent of 31% of total expenditures as compared with 4% in the first four months of last year.

In conclusion, the study noted that larger primary surpluses are essential to accelerate the decline in debt-to-GDP ratio to more sustainable levels, particularly in the context of the current global financial environment following the crisis in Greece. This could be achieved by implementing additional revenue-enhancing measures such as strengthening tax administration and compliance, more reliance on direct taxes, reduction in waste in government spending, and reforming the EDL. The report however added that administration of direct taxes would be more difficult than indirect taxes (like the VAT and import tariffs), as it would require major administrative and legal maneuvering, as well as hiring additional personnel with the requisite skills to monitor tax evasion. Such policies and effects are difficult to achieve in the short term in the absence of a strong political will. These measures, therefore, should be treated as complementary to raising the VAT rate (which is one of the fiscal revenue reforms in the Paris III agenda) and further increase in the real estate transaction fee.



Sources: IIF, Bank Audi's Research Department

CORPORATE NEWS

Beirut Water Taxi project to be launched in Lebanon

The Lebanese Water Transportation Alternative (LWTA), a privately owned company, proposed the Beirut Water Taxi project to develop a maritime commuter system, extending along the coastline between Beirut and Tripoli, Byblos, Jounieh, Damour, Saida, Tyr and Naqqoura, and aimed at reducing traffic on the coastline.

As soon as the green light is given, jetties would be constructed and three types of ferries would be used, mainly shuttle vessels (160 persons), clipper boats (220 persons) and a VIP pre-booked water taxi (16 persons).

The first phase of the project would require an investment of US$ 50 million where a multitude of organizations would manage the coastal area, the vessels and the various commercial centers that would be built near the jetties.

These vessels would be transporting passengers along the coastline between 6:00 am and 9:00 pm. The 25 minute trip from Beirut to Jounieh which extends along approximately 15 km would cost US$ 4, according to company officials. The project would also help stimulate the nation's economy by creating some 15,000 new jobs, according to the same source.

Holcim Liban to distribute 2009 dividends

Holcim Liban, one of Lebanon's leading cement producers, announced it would distribute LP 39.4 billion in 2009 dividends. Common stock owners would get LP 2,021 per share, subject to 5% dividend tax. Holcim Liban declared audited net profits of US$ 29.2 million in 2009, against US$ 19.5 million in 2008.

Société des Ciments Blancs to distribute 2009 dividends

Société des Ciments Blancs, majority owned by Holcim Liban, announced it would distribute LP 3.4 billion in 2009 dividends. Common stock owners would get LP 379 per share, subject to 5% dividend tax. Société des Ciments Blancs declared audited net profits of US$ 2.5 million in 2009, against US$ 3.2 million in 2008.

American University of Beirut partners with CFA Institute

CFA Institute, the global association for investment professionals that awards the Chartered Financial Analyst (CFA) designation, recently announced a CFA Program Partnership with the American University of Beirut (AUB). There are currently 122 CFA Program Partners in the world.

The CFA Program Partnership aligns the Bachelor of Business Administration (BBA) with emphasis in Finance AUB course with the CFA Program Candidate Body of Knowledge curriculum, allowing students to complete their studies and prepare for the CFA Program at the same time. This combination places successful students in an advantageous position when seeking to enter the finance industry or enhance their careers, according to company press releases.

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CFA Institute administers the CFA and CIPM curriculum and exam programs worldwide, publishes research, conducts professional development programs and sets voluntary, professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 135 countries and territories, as well as 135 affiliated professional societies.

The Lebanese CFA Society, established in 2001, was the first CFA society to be founded in the region and is now one of seven CFA societies in the Middle East. It is an association of local investment professionals consisting of portfolio managers, investment advisors, educators and other financial professionals.

Assist America sets up Assist America Middle East and North Africa in Beirut

Assist America, a worldwide provider of global emergency assistance in partnership with employee benefit plans, and founded in 1990, has set up Assist America Middle East and North Africa (AAME), which would be headquartered in Beirut. AAME would serve as the exclusive marketing arm for Assist America in the Middle East and North Africa.

The company's focus is to expand Assist America's global emergency services in the region through partnerships with insurers and group benefit plans.

Assist America's family of companies already serve as the area's premier provider of travel assistance, having established relationships with prestigious insurers in Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar, Lebanon and Turkey.

Assist America supports members with an array of resources, including emergency medical evacuation, medical repatriation, hospital admission guarantee, doctor referrals, care of dependent children and much more, when they travel. The company services include having no restrictions for pre-existing conditions, sports or geographic risk, and for providing services without financial caps, usage limits or charge-backs.

Money Market: Important rise in total deposits week-on-week

Regular norms governed the money market during this week, with the overnight rate standing 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 113 billion that were distributed as follows: LP 10 billion in the 45-day category and LP 103 billion in the 60-day category, bringing the total subscriptions since the beginning of the year 2010 to LP 2,294 billion. The latter was distributed as follows: LP 346 billion in the 45-day category and LP 1,948 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 24th of June 2010 indicated an increase of LP 363 billion in local currency deposits, as a result of a growth of LP 290 billion in LP time deposits and a LP 73 billion rise in LP demand deposits week-on-week. Deposits in foreign currencies rose by US$ 110 million. These weekly variations compare to an average weekly increase of LP 192 billion for LP deposits since the beginning of the year 2010, and an average weekly rise of US$ 34 million in foreign currency deposits. Within this context, LP money supply (M2) widened by LP 297 billion during the week ending 24th of June 2010. This compares to an average weekly increase of LP 190 billion since the beginning of the year 2010. In addition, total money supply in its large sense (M4) expanded by LP 415 billion week-on-week, as compared to an average weekly increase of LP 248 billion since the beginning of the year 2010.

On a cumulative basis, money supply in its large sense (M4) widened by LP 6,552 billion since the beginning of the year 2010. This is the result of an increase in local currency denominated time deposits of LP 5,120 billion, a rise in foreign currency deposits of LP 1,488 billion (the equivalent of US$ 987 million), a decline in money supply (M1) of LP 178 billion, and a growth in Treasury bills held by the public of LP 122 billion since the beginning of the year 2010.

Interest rates	9/7/10	2/7/10	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: Stability in yields

The secondary Treasury bills market was mainly underpinned by a shy activity during this week, with medium-term categories traded in tiny volumes.

As to the primary market, the preliminary results of this week's auction (July 08, 2010) showed that the average yield on the three-month category declined by a very tiny one basis point to reach 3.93%, while the average yield on the six-month category rose by six basis points to hit 4.49%. The average yield on the five-year category remained stable at 6.16%.

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, while it allowed them to subscribe in full of their bids in the six-month category. As to the five-year category, the Central Bank allowed commercial banks to subscribe to 50% of their accepted bids. It is worth noting that the BDL allowed public institutions to subscribe to 10% of their bids in each of the aforementioned categories.

On the other hand, the Central Bank of Lebanon released this week the auction results for value date July 01, 2010 which showed that total subscriptions amounted to LP 322 billion, and were distributed as follows: LP 42 billion in the one-year category, LP 42 billion in the two-year category and LP 238 billion in the three-year category. These compare to maturities of LP 560 billion, resulting in a nominal deficit of LP 238 billion.

Treasury bills	9/7/10	2/7/10	31/12/09	
3-month	3.93%	3.94%	4.55%	↓
6-month	4.49%	4.43%	5.72%	↑
1-year	4.79%	4.79%	5.73%	⇔
2-year	5.36%	5.36%	6.32%	⇔
3-year	5.86%	5.86%	7.10%	⇔
5-year	6.16%	6.16%	7.74%	⇔
Nom. Subs. (LP billion)		322	500	
Short-term (3&6 mths)		-	-	
Medium-term (1&2 yrs)		84	49	
Long-term (3 yrs)		238	451	
Long-term (5 yrs)		-	-	
Maturities		560	232	
Nom. Surplus/Deficit		-238	268	

Foreign Exchange Market: Slower conversions in favor of the Lebanese Pound

Depositors continued to convert their FC holdings into LP holdings during this week, yet in lower volumes relative to the previous week. In the interbank market, the US Dollar was on demand during this week while the offer was almost absent. The LP/US$ interbank rate ranged between LP 1,502.00 and LP 1,503.00. In parallel, commercial banks sold their green currency surpluses to the Central Bank of Lebanon at the lower end of the its intervention bracket (LP 1,501.00).

Exchange rates	9/7/10	2/7/10	31/12/09	
LP/US$	1,507.5	1,507.5	1,507.5	⇔
LP/£	2,290.34	2,292.00	2,389.24	↑
LP/¥	17.04	17.14	16.34	↑
LP/SF	1,426.21	1,410.86	1,451.33	↓
LP/Can$	1,442.72	1,423.11	1,436.12	↓
LP/Euro	1,910.61	1,885.28	2,159.95	↓

Stock Market: No change in prices

Equity prices remained relatively stable week-on-week, as shown by a very small decrease in the BSE price index of 0.04% to reach 139.21. The total trading value amounted to US$ 50 million this week, including cross trades on BLOM listed shares and GDRs for an amount of US$ 43 million. The total weekly trading value compares to a much lower value of US$ 10 million last week. Within this context, the average daily trading value rose from US$ 2.0 million last week to US$ 12.5 million this week, which resulted in an important rise in the trading volume index of 521.1% to reach 458.14.

In details, Solidere shares accounted for 6% of activity this week, with a trading value of US$ 2.8 million. Solidere "A" share price increased by 1.2% to US$ 22.80 and Solidere "B" share price rose by 1.3% to close at US$ 22.78.

As to the banking shares, they accounted for 94% of activity this week, registering a total trading value of US$ 47.1 million. In details, Bank Audi's "listed" share price declined by 2.9% to US$ 7.91, while Bank Audi's GDR price nudged up by 0.1% to close at US$ 8.35. BLOM's GDR price rose by

Audi Indices for BSE	9/7/10	2/7/10	31/12/09	
22/1/96=100				
Market Cap. Index	494.95	495.13	505.10	↓
Trading Vol. Index	458.14	73.76	115.58	↑
Price Index	139.21	139.26	144.04	↓
Change %	-0.04%	-0.39%	0.91%	↓
Market Cap. $m	11,742	11,746	11,983	↓
No. of shares traded	2,355,885	1,582,825	248,012	↑
Value Traded $000	49,919	10,004	6,434	↑
o.w. : Solidere	2,814	4,652	2,055	↓
Banks	47,090	5,345	4,375	↑
Others	15	7	4	↑

1.8% to US$ 90.00, while BLOM's "listed" share price nudged down by 0.5% to US$ 87.00. In contrast, Byblos Bank's "listed" share price rose by 1.7% to US$ 1.81, while Byblos Bank's "priority" share price remained unchanged at US$ 1.80. Among the industrial shares, Holcim's share price declined by 1.3% to US$ 13.50.

As compared to other emerging stock markets, the BSE performed lower during this week, as shown by a 4.2% rise in the Morgan Stanley Capital International Emerging Market Free Index (MSCI EM). However, the BSE performance was relatively similar to that of other Arabian and GCC equity markets, as reflected by a 0.7% increase in the Morgan Stanley Capital International Arabian Markets Index (MSCI Arabian Markets) and 0.8% rise the Morgan Stanley Capital International GCC Countries Index (MSCI GCC Countries Index).

On a cumulative basis, total trading value amounted to US$ 1,457 million during the first half of 2010, as compared to US$ 387 million during the corresponding period of 2009. The sharp hike in the total trading value is partially attributed to the transaction on EFG-Hermes' stake in Bank Audi for US$ 913 million in January 2010. Accordingly, the turnover ratio, measured by the annualized total trading value to market capitalization hit 24.8% during the first half of 2010 versus 7.1% during the corresponding period of 2009. When excluding the EFG-Hermes operation, the turnover ratio falls to 9.2% during the first half of 2010, still shedding light on the relative rise in activity on the BSE.

Bond Market: Decline in the spread on the back of higher benchmark yield

The Eurobond market witnessed local and foreign demand in low volumes during this week that was partially met by a local offer. Bond prices didn't change week-on-week, as shown by a stable average yield at 4.62%. The average bond spread tightened by six basis points to reach 265 basis points, on the back of a rise in benchmark yields.

For instance, the average yield on five-year US Treasury bills rose from 1.80% last week to 1.84% this week, after encouraging data on US jobless claims and retail sales dispelled some investor fears about a double-dip recession.

Eurobonds Indicators	9/7/10	2/7/10	31/12/09	
Total tradable size $m	17,850	17,842	17,704	↑
o.w.: Sovereign bonds	17,380	17,372	17,134	↑
Average Yield	4.62%	4.62%	5.31%	⇔
Average Spread	265	271	290	↓
Average Life	4.75	4.77	4.57	↓
Yield on US 5-year note	1.84%	1.80%	2.62%	↑

ARAB STOCK MARKETS INDICES:

	9-Jul-10	2-Jul-10	31-Dec-09	Weekly change	End-year-to-date change
Lebanon	139.2	139.3	144.0	0.0%	-3.4%
Jordan	132.6	132.8	149.9	-0.2%	-11.6%
Egypt	747.2	745.2	784.9	0.3%	-4.8%
Saudi Arabia	387.1	388.3	389.3	-0.3%	-0.6%
Qatar	616.6	612.6	611.1	0.7%	0.9%
UAE	194.3	190.6	229.3	1.9%	-15.3%
Oman	858.4	836.5	837.2	2.6%	2.5%
Bahrain	261.1	256.9	331.9	1.7%	-21.3%
Kuwait	564.0	545.0	554.5	3.5%	1.7%
Morocco	424.4	420.7	417.0	0.9%	1.8%
Tunisia	1,186.2	1,166.7	1174.1	1.7%	1.0%
Arabian Markets	463.2	459.9	470.5	0.7%	-1.5%

Sources: MSCI Barra, Bank Audi's Research Department

INTERNATIONAL MARKET INDICATORS:

	9-Jul-10	2-Jul-10	31-Dec-09	Weekly change	End-year-to-date change
EXCHANGE RATES					
YEN/$	88.48	87.74	92.46	0.8%	-4.3%
$/£	1.511	1.518	1.589	-0.5%	-4.9%
$/Euro	1.266	1.254	1.432	1.0%	-11.6%
STOCK INDICES					
DOW JONES INDUSTRIAL AVERAGE	10,198.03	9,686.48	10,548.51	5.3%	-3.3%
S&P 500	1,077.96	1,022.58	1,126.42	5.4%	-4.3%
NASDAQ	2,196.45	2,091.79	2,291.28	5.0%	-4.1%
CAC 40	3,554.48	3,348.37	3,935.50	6.2%	-9.7%
Xetra Dax	6,065.24	5,834.15	5,957.43	4.0%	1.8%
FT-SE 100	5,132.94	4,838.09	5,397.90	6.1%	-4.9%
NIKKEI 225	9,585.32	9,203.71	10,546.44	4.1%	-9.1%
COMMODITIES					
GOLD OUNCE	1,211.50	1,210.60	1,095.70	0.1%	10.6%
SILVER OUNCE	18.11	17.82	16.83	1.6%	7.6%
BRENT CRUDE (barrel)	75.58	71.85	77.66	5.2%	-2.7%
LEADING INTEREST RATES (%)					
1-month Libor	0.34	0.35	0.23	-0.01	0.11
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	3.06	2.98	3.84	0.08	-0.78

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