The MENA Weekly Monitor

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ECONOMY

p.2 **IMF sees growth gaining strength in the MENA region with credit activity remaining sluggish**

The International Monetary Fund (IMF) indicated that growth in MENA countries is strengthening as a result of resuming capital inflows and rising crude oil prices.

Also in this issue:

SURVEYS

p.4 **Dubai and Abu Dhabi top MENA cities in terms of quality of living as per Mercer Human Resource Consulting**

Dubai and Abu Dhabi ranked as the best quality of living cities in the Middle East and North Africa (MENA) region as per Mercer Human Resource Consulting.

Also in this issue:

CORPORATE NEWS

p.5 **UAE's Borouge awards US$ 2.6 billion construction contracts in Abu Dhabi**

Abu Dhabi Polymers, or Borouge, manufacturers of plastics solutions, has awarded 3 major engineering and construction contracts worth US$ 2.6 billion for its expansion project in Abu Dhabi.

Also in this issue:

MARKETS IN BRIEF

p.6 **Regional equity markets see sharp drops in prices while regional bond markets await improvement in market conditions**

All regional equity markets, except for Lebanon, saw week-on-week declines in prices on the back of growing Eurozone concerns and in view of recent drops in oil prices that spurred some selling operations. All in all, regional stock markets fell by 6.4% this week, bucking global and emerging markets performances. Energy and banking stocks were among the top losers in view of recent falls in oil prices and on concerns about bank provisioning following the Eurozone crisis. As to fixed income markets, a wait-and-see mood governed across the region. In fact, growing Eurozone concerns sent borrowing costs in regional bond markets to their highest levels since September 2009, which prompted some regional bond issuers to delay their bond sales until investor sentiment improves and global market conditions regain stability. This came in line with the postponement of other bond issues in emerging markets, namely in Malaysia.

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

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IMF sees growth gaining strength in the MENA with credit activity remaining sluggish

Economic prospects for the countries of the Middle East and North Africa (MENA) have improved with the resumption of capital inflows and rising crude oil prices. But stress in the banking and financial sectors along with slow credit activity are weighing on the rebound, the International Monetary Fund (IMF) said in its latest Regional Economic Outlook (REO).

The outlook for the region has improved considerably from 2009. Growth is gathering momentum in 2010, helped by the pickup in capital inflows and resurgence in domestic consumption, as per the IMF. However, this positive perspective is clouded by some stress in the banking system and lethargic credit activity across the region.

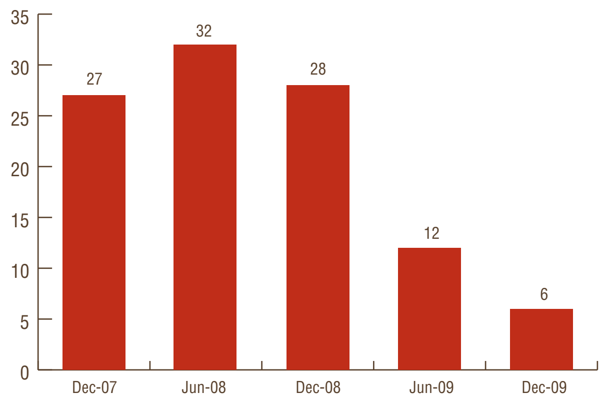
The study looked at the economic situation of both oil exporters and oil importers. With respect to the former group, namely Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, the UAE, and Yemen, the study noted that they were hit hard in 2009. Their combined current account surplus fell to US$ 53 billion in 2009, after having reached US$ 362 billion in 2008. Oil GDP growth for these countries contracted by 4.7%, triggered by plummeting oil prices. However, massive stimulus measures helped mitigate the impact of the crisis, and non-oil economic activity still managed to expand by 3.6% in 2009.

The report sees a strong recovery in the coming year, aided by an increase in capital inflows and crude oil prices. Higher oil prices and output are projected to boost the current account surplus to US$ 140 billion and oil GDP growth to 4.3%. Non-oil sector activity, supported by sustained fiscal stimulus in some countries, is also forecast to grow by 4.1%. The IMF also indicated that the region's oil exporters still face challenges in their banking systems, in countries where credit to the private sector remains sluggish and losses on nonperforming loans have yet to be fully recognized. Following an extended period of high growth through mid-2008, credit in these countries slowed by an average of almost 30 percentage points by end-2009. Governments will have to balance the goal of reactivating credit with the need to strengthen financial regulations and enhance supervision, particularly in countries where there is evidence that excessive risk-taking occurred.

As to the region’s oil importers, namely Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia, the IMF noted that they are recovering from last year's slowdown, but growth remains below the levels needed to reduce high unemployment. These countries' limited financial and trade ties combined with positive spillovers from fiscal expansions in the region’s oil exporters helped offset the impact of the global slowdown. As a result, overall growth fell only modestly to 3.8% in 2009, from 5.0% in 2008.

With trade rebounding since mid-2009 and investment and bank credit beginning to pick up, growth is projected to increase marginally to 4.1% in 2010 and 4.8% in 2011, as per the IMF. These growth rates, however, are insufficient to create the jobs needed for a region with a rapidly expanding workforce and a high rate of unemployment, and falls short of that in other emerging markets. Credit growth, which fell to a weighted average of 2.0% in the year to October 2009 from almost 20% before the crisis, also remains low, as it does elsewhere in the region. At the same time, inflation remains relatively high in many countries, mainly on account of higher food and energy prices. The report also notes that the resurgence of capital inflows witnessed in oil exporting countries is not yet evident in most oil importing countries. Continued weakness in European demand, appreciated exchange rates, and competition from other emerging markets is hampering the potential for export-led growth. The main challenge for oil importer would be to improve their competitiveness in order to raise growth and generate much-needed employment.

Credit growth in the MENA region (%)



Sources: IMF, Bank Audi’s Research Department

Jones Lang LaSalle forecasts a rise in MENA hotel transactions over the next 12 months

Jones Lang LaSalle (JLL) issued its latest MENA House View in which it noted that the hotel market in the MENA region is exhibiting signs of recovery, which is expected to result in additional transactions over the next 12 months. Increased investor interest in hotels in the MENA region is being buoyed mainly by the following factors: shift from development to investment led market, increase in hotels for sale, competitive pricing, rise in visitor arrivals, rise of revenue per available room (RevPAR), and the fact that the hotel sector is the first to recover from the global crisis.

The report indicated that investors are increasingly focusing on more secure, predictable income streams rather than short term capital gains. Indeed, this reality is beneficial for the hotel sector which offers a range of income producing assets, as per the report. Additional indicators reflecting the maturity of hotel markets are improvements in standards, consistency, segmentation, regulation, and branding. These factors enhanced transparency as well as openness within the sector.

JLL also noted that in the region, room supply is expected to rise from 640,000 to 730,000 rooms over the period 2010-2015. Early signs are emerging that more hotel owners are seeking to attract capital by way of outright or partial sale or through joint ventures. With respect to competitive pricing, it is evident that the gap between the number of investors looking to buy income producing assets and those looking to sell has narrowed in markets such as Morocco, Qatar and the Levant. Also, the gap in pricing expectations is narrowing as existing owners are becoming more realistic in light of their increased need for capital. The report also stated that growing international arrivals mainly from Europe, Asia and India had a positive impact on hotel occupancies. The recovery of international markets enhanced tourism with 2010 expected to witness a rise of over a million tourist arrivals throughout the region.

Finally, the hotel sector will be the first to recover in several regional markets including Dubai with the investment value of branded hotel properties stabilizing over the past six months.

Mergers and acquisitions in the MENA region on the rise

Mergers and acquisitions (M & A) in the Middle East and Africa (MENA) region are on the rise. The volume of Middle Eastern targeted mergers and acquisitions more than tripled in the first quarter of 2010, reaching US$ 10.7 billion in announced deals versus US$ 2.5 billion in the first quarter of 2009, according to Thomson Reuters Data.

This year's first quarter has been the busiest period for mergers and acquisitions in the region since the fourth quarter of 2007, as shown by Thomson Reuters' data, with US$ 4.3 billion in real estate deals and US$ 3.3 billion in industrial sectors accounting for 62% of total activity.

In a ranking of the top 10 Middle Eastern acquirers, the UAE firms came first with 42.8% of the total M & A volume in the first quarter of 2010, followed by Qatar with 34.5% and Saudi Arabia with 10.1%, as per Thomson Reuters data.

NCB forecasts a real GDP growth of 4% in Saudi Arabia in 2010

Saudi Arabia is projected to record a 4% growth this year on the back of government spending and higher oil production, according to the Business Optimism Index (BOI) for the second quarter of 2010, by the National Commercial Bank (NCB). The BOI was done in association with Dun and Bradstreet South Asia Middle East Ltd (D&B).

The BOI is considered a key measure of the pulse of the business community, serving as a reliable benchmark for investors, policy makers and other observers of the economy worldwide. The index on Saudi Arabia is issued on a quarterly basis.

D&B indicated that the Saudi economy is showing consistent signs of improvement primarily driven by strong hydrocarbon prices in the international markets. This, combined with a continued fiscal expansionary stance, will provide further growth impetus to the Kingdom's economy. Meanwhile, NCB indicated that the latest findings revealed that even though business sentiments were not as high as the previous quarter due to the uneven pace of global economic recovery, they were almost as strong, indicating continued recovery in Saudi Arabia.

The results of the survey for the BOI confirm NCB's forecasts that the Saudi economy will expand by 3.5% in 2010 from the low 0.15% in 2009, with the non-oil sector GDP projected to register a faster growth of 3.8%. NCB added that the Saudi business community surveyed expected improved borrowing conditions, which are consistent with the gradual pickup in banks' lending so far since the beginning of the year.

HC Brokerage sees near-term upside and long-term macro stability in the UAE

A recent country update released by HC Brokerage on the UAE indicated that increased detail on Dubai world's restructuring is a positive catalyst, as additional clarity should boost investor confidence in the local market and alleviate fears of any major default. The study also noted that the decline in the global risk appetite due to concerns over Eurozone Sovereign debt, the rally in the US Dollar, and the strong GCC macro fundamentals provide a safe haven for investors. Nevertheless, the report added that investors remain slightly cautious on the UAE market. Concerns on the level of provisions of assets exposed to Dubai Inc., with speculation continuing to surround the next entity to restructure, are areas that rise some concerns for investors.

In short, HC Brokerage notes that the UAE equity market offers investors an opportunity to capture near-term upside and long-term macro stability. Indeed, the UAE market is trading at attractive multiples compared to regional peers. The gradual removal of the macro overhang (caused by Dubai debt) and the GCC market outperforming global equity markets lead HC Brokerage to reiterate its overweight position on the market.

Dubai and Abu Dhabi top MENA cities in terms of quality of living as per Mercer Human Resource Consulting

Dubai and Abu Dhabi continue to occupy the highest ranks in the GCC in Mercer's global Quality of Living survey, which was released today. With Dubai ranking at 75, and Abu Dhabi taking the 83rd spot in the list, Dubai and Abu Dhabi respectively are also the best quality of living cities in the Middle East and North Africa (MENA). Analysts at the Middle East Office of Mercer commented that the Abu Dhabi and Dubai governments have invested a lot of time and money to improve the quality of living in both cities.

Elsewhere in the MENA, Tunis in Tunisia (94) and Muscat in Oman (100) were the region's only other two cities in the top 100. Following the revision of the index, a selection of cities globally has been added, including Doha in Qatar, which came in the 110th position globally and 5th in the region. Analysts at Mercer Middle east stated that Doha has become a center of attention for expatriates coming from different parts of the world, due to efforts exerted by the government to improve the quality of living in the city.

Manama in Bahrain trailed directly after Doha in the regional ranking and took the 111th position, followed by Rabat and Casablanca in Morocco, which respectively came in the 112th position and 121st position globally. Rababt was also added to the survey this year. Kuwait City in Kuwait at 122, Amman in Jordan at 123 and Cairo in Egypt at 126 came in next, whereas in Saudi Arabia Riyadh is ranked 158 and Jeddah 159, with the two cities ranking 12th and 13th regional in that order.

Quality of Living Index - 2010

City	Score 2010	MENA Rank 2010	Global Rank 2010
Dubai	89.3	1	75
Abu Dhabi	87.4	2	83
Tunis	83.1	3	94
Muscat	80.9	4	100
Doha	76.0	5	110
Manama	75.9	6	111
Rabat	75.2	7	112
Casablanca	72.6	8	121
Kuwait	72.5	9	122
Amman	72.4	10	123
Cairo	71.9	11	126
Riyadh	59.6	12	158
Jedddah	58.9	13	159
Beirut	54.6	14	172
Damascus	53.8	15	173
Algiers	51.3	16	182
Tehran	50.4	17	183
Sanaa	34.3	18	215
Baghdad	14.7	19	221

Sources: Mercer Human Resources, Bank Audi's Research Department

This year's ranking also identifies the cities with the best eco-ranking based on water availability and drinkability, waste removal, quality of sewage systems, air pollution and traffic congestion. The highest-ranking eco city in the GCC is Muscat (48), followed by Dubai and Abu Dhabi jointly occupying the 65th place, Manama (80), Doha (85), Kuwait City (88), Riyadh (114) and Jeddah (130).

Globally, Vienna retains the top spot as the city with the world's best quality of living, according to the Mercer 2010 Quality of Living worldwide city rankings. Zurich and Geneva follow in second and third position, respectively, while Vancouver and Auckland remain joint fourth in the rankings. Baghdad (221) remains at the bottom of the table, though its index score has increased slightly (from 14.4 to 14.7 in 2010). A lack of security and stability continue to have a negative impact on Baghdad's quality of living.

Barclays Wealth notes that high net worth individuals in the GCC are optimistic on the future performance of the global economy and their economies

Barclays Wealth, a global wealth manager, published a report revealing wealthy investors' attitudes towards the global economic outlook and prospects for investments in the years ahead. The study, termed 'The Changing Wealth of Nations' is a survey of trends, financial priorities and economic expectations of High Net Worth Individuals (HNWIs) around the world. The survey covers more than 20 countries, including more than 2,000 respondents.

HNWIs in the GCC countries surveyed are more optimistic on the performance of the global economy and their own local economies. HNWIs from Saudi Arabia (70%), Qatar (88.7%), and the UAE (81.2%) believe that the global economy will grow over the next few years with a minority considering that the growth will take place after a slight deterioration in the near term. Conversely, figures reveal that 60% of the aggregate of global HNWIs believe that the world economy will be stable or even deteriorate in the near future, according to Barclays Wealth's survey.

In terms of real estate, all HNWIs of Qatar (77%), UAE (77%) and Saudi Arabia (74%) believe that property will perform quite well over the coming five years. Furthermore, UAE (73%) and Saudi Arabia (78%) believe that equity in the medium term will outperform equities in the short term. In the meantime, the majority of HNWIs in Qatar believe that the performance of the equities market in the short term will match the medium term performance with only 32% considering that equities' market performance will increase in the future, as per Barclays Wealth.

CORPORATE NEWS

UAE's Borouge awards US$ 2.6 billion construction contracts in Abu Dhabi

Abu Dhabi Polymers, or Borouge, manufacturers of plastics solutions, has awarded three major engineering and construction contracts valued at US$ 2.6 billion for its Borouge-3 expansion project in Ruwais, Abu Dhabi.

These investments would expand the production capacity of the plant to 4.5 million tons per year (t/y) by 2013, making it the largest integrated polyolefins site in the world, according to company statements.

A contract worth US$ 1.3 billion for the construction of two Borstar enhanced polyethylene and two Borstar enhanced polypropylene units, as well as a contract worth US$ 400 million for the construction of a 350,000 t/y low density polyethylene unit, was awarded to the Joint Venture consortium Technimont of Italy and South Korea's Samsung Engineering, on a lump sum turnkey basis.

The annual capacity of the polyethylene units is 1,080,000 tonnes per annum and that of the polypropylene units is 960,000 tons per annum.

In addition, a contract worth US$ 935 million for the utilities and off-site facilities for the expanded plant was awarded to Hyundai Engineering and Construction.

Borouge is a joint venture between the Abu Dhabi National Oil Company, one of the world's largest oil and gas companies, and Borealis, a leading provider of chemical and innovative plastics solutions.

Takreer awards US$ 463 million for Group III Base Oil Production Facilities Project at Al Ruwais Refinery

Abu Dhabi Oil Refining Company (Takreer) recently announced that a contract worth US$ 463 million has been awarded to Hyundai Engineering Company for Engineering, Procurement, Construction and Commissioning (EPC) works of the Group III Base Oil Production Facilities Project at Ruwais Refinery.

The planned facility would be capable of producing 500,000 tons per year of Group III Base Oils as well as 100,000 tons per year of Group II Base Oils. The project comprises a new pre-distillation, hydroisomerization and product distillation units. The project also includes a revamp of the existing hydrocracker unit, new storage tanks and integration with existing refinery units and utilities.

Takreer Ruwais Refinery's existing hydrocracker complex would provide the feed stock for the project. The latest hydro-processing technology would be applied together with its integration with Takreer existing hydrocracker facilities for producing high quality base oils.

Group III Base Oil is a high quality and environmental friendly base oils used for blending top-tier lubricants for car engines. The Group III base oils have a long life and significantly increase the drain intervals of car lubricants.

The objective of the project is to provide Takreer with greater diversity in refined products by adding new high value Group III lubricating oils.

Takreer, a subsidiary of Abu Dhabi National Oil Company, stated that the project is due to meet commercial production by the end of 2013.

Saudi Arabia's Arriyadh Development Company to implement US$ 4.5 billion mixed-use project in Riyadh

Saudi Arabia's Arriyadh Development Company would implement a US$ 4.5 billion mixed-use development project for downtown Riyadh, after getting the necessary approval from the government, according to newswires.

The project would cover an area of 750,000 square meters and includes residential, retail and tourism components, according to the same source.

The project, termed Duhairah District, would form part of the redevelopment plan for Riyadh and would be constructed in nine stages over 15 years, according to company officials.

Drydocks World wins US$ 110 million contract to build semi-submersible vessel in the UAE

Dubai Drydocks World has won a contract to build an oil well intervention compact semi-submersible (CSS) vessel at a total cost of US$ 110 million.

This would be the Dubai-based company's third order from integrated energy industries service provider Hallin Marine, according to newswires.

The vessel would cost US$ 110 million (AED 403 million). Designed by STX Canada Marine, the diesel and electric CSS's primary function would be to facilitate repair and maintenance of an existing well via chemical injection on braided lines. It would do this by extending perforation tunnels, and effectively maximizing and extending the productive life of the well. The CSS could accommodate up to 152 sub-sea team members.

Drydocks World has been in the maritime industry for more than 25 years, and is a specialist in ship repair, offshore, shipbuilding, repair, conversion and shipping. Dubai Drydocks World was conceived and developed to address the repair needs of oil tankers traversing the Gulf region.

EQUITY MARKETS

Regional heavyweight markets fall in the red

All Regional equity markets except for Lebanon saw week-on-week declines in prices on the back of growing concerns about Greece's debt crisis and fears that it may slowdown ongoing global economic recovery; added to this are recent drops in oil prices that spurred some selling operations across the region. All in all, regional stock markets fell by 6.4% this week, bucking global and emerging markets that registered weekly increases of 1.0% and 5.8% respectively. Energy and banking stocks were among the top losers in view of falling oil prices and as investors feared that banks will have to take fresh provisions as a result of the Eurozone crisis.

In Saudi Arabia, the Tadawul was the worst performer in the region during this week, showing an 8.9% drop in prices. Petrochemical stocks led the decline as recent drops in oil prices sparked panic selling in the world's top crude exporting countries. For instance, Petro Rabigh's share price was among the top losers this week, plummeting by 16.2% to reach SR 24.90. Saudi Kayan Petrochemical was among the most traded stocks during this week. Its share price fell sharply by 14.9% to hit SR 16.55. In addition, SABIC's share price plunged by 13.3% week-on-week to close at SR 80.00. It is worth noting that the SABIC's CEO announced this week that an oil price of US$ 65 per barrel would be to the company's disadvantage.

The UAE equity markets followed the same downward stance, registering a 7.1% drop in prices week-on-week. Energy and real estate stocks led the decline. In Abu Dhabi, Taqa's share price fell by 3.5% to close at AED 1.12. Dana Gas' share price tumbled by 7.4% to reach AED 0.75. As to banking stocks, Abu Dhabi Commercial Bank's share price tumbled by 7.1%, ending at AED 1.70. National Bank of Abu Dhabi's share price plummeted by 8.9% to close at AED 10.70. It is worth mentioning that Morgan Stanley lifted towards the end of the week NBAD's target price from AED 12.1 to AED 13.9. In Dubai, Emaar's share price ended 8.8% lower at AED 3.41. As to banking stocks, Ajman Bank's share price fell by 8.8% to AED 0.76. Dubai Islamic Bank's share price closed 4.0% lower at AED 2.14.

Elsewhere in the Gulf region, the Qatar Exchange saw a 5.4% fall in prices week-on-week, with 39 out of 42 traded stocks registering weekly drops in prices, on the back of mounting concerns about Greece's debt crisis and recent drops in oil prices. Industries Qatar was among the most traded stocks this week, accounting for 23.4% of the total trading value. Its share price fell by 6.9 % week-on-week to hit QR 96.00, as falling oil prices spur selling of petrochemical stocks. It is worth mentioning that at the end of the week HSBC raised Industries Qatar to "Overweight" from "Neutral", and it kept its target price at QR 121, stating that the stock seems to be attractive at its current price. Likewise, Barwa Real Estate was among the most traded stocks this week, accounting for 12.6% of total activity. Its share price fell by 7.9% week-on-week to close at QR 28.10. As to banking stocks, Masraf Al Rayan traded heavily this week. Its share price dropped by 5.0% to close at QR 13.30.

Outside the Gulf region, the Egyptian Exchange saw a 1.5% decline in prices. Orascom Telecom's share price continued to dive in the red zone, falling by 3.7% week-on-week to hit LE 5.20, its lowest level since year-end 2009, following news that OT and MTN have ended talks over the sale of OT's Djezzy unit in Algeria, and MTN also stopped negotiations with lenders for a US$ 5 billion loan to fund its bid.

Equity Markets Indicators

Market	Price Index	Week-on-week	Year-to-date	Trading Value	Week-on-week	Volume Traded	Market Capitalization	Turnover ratio	P/E	P/BV
Lebanon	143.1	0.0%	-0.7%	109.3	638.8%	4.8	12,067.4	47.1%	9.8	1.38
Jordan	135.5	-2.4%	-9.6%	125.7	34.5%	98.8	29,662.4	22.0%	18.0	1.56
Egypt	789.6	-1.5%	0.6%	863.8	26.9%	604.4	73,792.2	60.9%	11.2	1.68
Saudi Arabia	373.8	-8.9%	-4.0%	6,217.8	14.0%	1,104.8	304,237.3	106.3%	15.1	1.92
Qatar	594.6	-5.4%	-2.7%	389.7	20.4%	45.3	99,883.9	20.3%	10.3	1.99
UAE	208.2	-7.1%	-9.2%	587.5	11.2%	1,161.2	129,984.9	23.5%	10.7	1.02
Oman	847.6	-2.4%	1.2%	71.6	17.6%	79.1	17,275.0	21.6%	11.3	1.75
Bahrain	290.9	-3.4%	-12.4%	5.9	15.2%	8.3	17,382.3	1.8%	11.2	1.07
Kuwait	616.2	-3.4%	11.1%	618.2	4.3%	984.5	101,558.8	31.7%	14.6	1.43
Morocco	412.0	-7.4%	-1.2%	268.1	-42.6%	5.4	64,580.5	21.6%	16.5	3.43
Tunisia	1,174.3	-1.5%	0.0%	-	-	3.6	9,183.7	-	15.4	1.98
Arabian Markets	**465.3**	**-6.4%**	**-1.1%**	**9,257.6**	**12.6%**	**4,096.6**	**850,424.5**	**56.6%**	**13.1**	**1.64**

Values in US$ million; volumes in millions

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

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

FIXED INCOME MARKETS

Bond issue delays due to unstable global market conditions

A wait-and-see mood governed fixed-income markets across the region during this week. In fact, growing concerns about the spillovers of Greece's debt crisis on other European countries sent borrowing costs in regional fixed income markets to their highest levels since September 2009, which prompted some regional bond issuers to delay their bond sales until investor sentiment improves and global market conditions regain stability. This came in line with the postponement of other bond issues in emerging markets, namely in Malaysia. The Audi compiled weighted Middle East average yield witnessed little change this week (-9 basis points week-on-week). In parallel, the CDS spread remained almost stable in many regional markets, noting that the emerging markets saw a 17 basis points decline in its CDS spread week-on-week.

Among regional bond issues that are still waiting in the pipeline is SABIC's bond sale. In fact, the world's largest petrochemicals maker decided this week to delay its bond issue due to unstable global market conditions and investor demand for higher yields. The firm did not indicate any time frame for the bond sale, saying it may take weeks or months. SABIC has actually three outstanding Sukuks amounting for a total of US$ 4.3 billion. A significant part of its consolidated cash investment is based on Islamic structures and 30% of its outstanding debt portfolio is Shariah compliant.

Likewise, Bank of Bahrain and Kuwait that has recently completed a road show to promote bonds worth US$ 500 million, decided to postpone the bond sale due to higher borrowing costs. BBK also didn't give any timing for the bond issue, saying that it will take place any time the market permits.

Despite this reluctant mood, some firms announced future plans to issue bonds. In fact, Abu Dhabi-based Emirates Aluminium (EMAL) announced this week plans to issue bonds worth up to US$ 1 billion in 2010. Yet, the company didn't specify any timeframe for the bond sale, stating only that "there will be an EMAL bond at some point this year". EMAL is 50-50 joint venture between Abu Dhabi sovereign investment vehicle Mubadala and Dubai Aluminium.

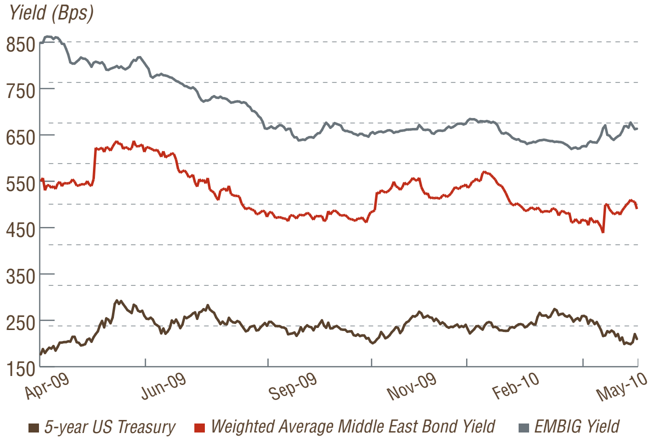
In addition, Saudi Electricity Company announced this week that it is eyeing its first international bond issue in early 2011, after having completed the sale of a 20-year SR 7 billion (US$ 1.9 billion) Islamic bond early May 2010. SEC hasn't set a size for the issue, as it awaits a SR 15 billion ($4 billion) soft loan from the government that has already been approved and defines its cash needs. The proceeds of the new issue would be used to expand and refinance debt.

On the other hand, there were some unfavorable news in the markets during this week. In fact, Tabreed failed to make distribution payments due May 19, 2010 on its AED 1.7 billion (US$ 463 million) Islamic bonds. It is worth mentioning that the company announced last month that its board approved deferring annual payments on the billion dirhams of Islamic bonds, or Sukuk, in connection with its recapitalization plan.

As to credit ratings, Fitch ratings downgraded this week Dubai Bank's Individual Rating to "D" from "C/D", while maintaining it on Rating Watch Negative, which reflects the bank's weakened financials, including low profit expectations for 2010, rising loan charges as well as the likelihood of further asset quality deterioration, given high levels of restructured/renegotiated loans.

In addition, Standard & Poor's placed this week its "A-" long-term counterparty credit rating on Kuwait Finance House on CreditWatch with negative implications, as the material deterioration of asset quality indicators and reduced revenue generating capability linked to the bad performance of equity and real estate markets, have negatively affected KFH's financial profile.

Weighted Average Middle East bond yield v/s Intl benchmarks



Sources: Thomson Reuters, Bank Audi's Research Department

Middle East 5Y CDS Spreads v/s Intl Benchmarks

in basis points	28-May 2010	21-May 2010	31-Dec 2009	Week-on -week	Year-to -date
Abu Dhabi	120	122	151	-2	-31
Dubai	490	425	445	65	45
Qatar	90	98	105	-8	-15
Saudi Arabia	71	72	85	-1	-14
Bahrain	160	160	210	0	-50
Oman	167	184	127	-17	40
Egypt	215	194	260	21	-45
Lebanon	300	300	281	0	19
Emerging Markets	289	306	272	-17	17

Sources: Thomson Reuters, Bank Audi's Research Department

SOVEREIGN RATINGS

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

NR = Not Rated

INTERNATIONAL MARKET RATES

	28-May-10	21-May-10	31-Dec-09	Weekly Change	Year-to-date
US Prime Rate	3.25%	3.25%	3.25%	0.00%	0.00%
3-M Libor	0.54%	0.50%	0.25%	0.04%	0.29%
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%

FX RATES (per US$)

	28-May-10	21-May-10	31-Dec-09	Weekly Change	Year-to-date
LEVANT					
Lebanese Pound (LBP)	1,507.50	1,507.50	1,507.50	0.0%	0.0%
Syrian Pound (SYP)	47.10	46.95	45.75	0.3%	3.0%
Jordanian Dinar (JOD)	0.71	0.71	0.71	-0.1%	0.0%
Egyptian Pound (EGP)	5.66	5.65	5.49	0.2%	3.2%
Iraqi Dinar (IQD)	1,165.00	1,165.00	1,150.00	0.0%	1.3%
GULF					
Saudi Riyal (SAR)	3.75	3.75	3.75	0.0%	0.0%
UAE Dirham (AED)	3.67	3.67	3.67	0.0%	0.0%
Qatari Riyal (QAR)	3.64	3.64	3.64	0.0%	0.0%
Kuwaiti Dinar (KWD)	0.29	0.29	0.29	0.0%	1.1%
Bahraini Dinar (BHD)	0.38	0.38	0.38	0.0%	0.0%
Omani Riyal (OMR)	0.38	0.38	0.38	0.0%	0.0%
Yemeni Riyal (YER)	224.50	224.50	203.00	0.0%	10.6%
NORTH AFRICA					
Algerian Dinar (DZD)	72.98	72.48	70.42	0.7%	3.6%
Moroccan Dirham (MAD)	8.93	8.78	7.88	1.7%	13.4%
Tunisian Dinar (TND)	1.51	1.48	1.32	1.7%	14.0%
Libyan Dinar (LYD)	1.32	1.31	1.23	0.6%	7.5%
Sudanese Pound (SDG)	2.27	2.23	2.24	1.9%	1.4%

COMMODITIES (in US$)

	28-May-10	21-May-10	31-Dec-09	Weekly Change	Year-to-date
Crude oil barrel (Brent)	73.0	70.6	77.7	3.3%	-6.1%
Gold ounce	1,213.8	1,175.2	1,095.7	3.3%	10.8%
Silver ounce	18.4	17.6	16.8	4.3%	9.0%
Platinum ounce	1,543.5	1,504.5	1,467.0	2.6%	5.2%

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