The MENA Weekly Monitor

Week 23
May 28 - Jun 4
2010

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Wait-and-see mood continued to be the main feature characterizing fixed income markets across the region during this week, on concerns about the level of writedowns on bad loans and other losses at European banks over the next couple of years that sparked new worries about the global economic recovery and lessened demand for riskier assets in general. Within this context, the Audi compiled weighted Middle East average yield remained almost stable this week, as shown by a very tiny decline of two basis points relative to the previous week. In parallel, the CDS spread remained almost stable in many regional markets. As to regional equity markets, they saw mixed movements in prices during this week, with the Saudi Arabian market topping the risers list and the UAE markets leading the decline. All in all, MSCI Arabian Markets Index posted a 1.1% increase in prices week-on-week, bucking global and emerging markets that registered decreases of 1.7% and 0.4% respectively.

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

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ECONOMY

IIF sees GCC countries evading spillovers of Greek crisis

A recent report issued by the Institute of International Finance (IIF) indicated that the current Greek debt crisis and the broader Euro area issues are unlikely to affect materially GCC growth prospects this year and next year. The recent dip in oil prices should be offset in part by a stronger dollar.

Also, the agreement between Dubai World and its creditors on a debt restructuring plan with only modest credit-related losses seems to have eased market uncertainties and could pave the way for improved confidence. Indeed, the report noted that GCC countries are returning to strong growth, supported by higher oil prices, vigorous government spending and some recovery in global trade and capital spending.

Over the medium-term, the IIF indicated that growth prospects could be further enhanced by deeper structural reforms, more urgent in the crisis-affected jurisdictions, including the rehabilitation of banks' balance sheets, restructuring and closer supervision of the nonbanking financial sector, and improvements in corporate governance, transparency and risk management.

Inflation is likely to remain subdued as large output gaps and a further decline in rents (an important component of the CPI) persist. Meanwhile, the IIF forecasted the consolidated current account surplus to widen from US$ 47 billion in 2009 to US$ 128 billion in 2010 and US$163 billion in 2011 but may be slightly lower (in nominal US dollar terms) if oil price weaknesses persist. The region's net foreign assets could rise to US$ 1.2 trillion by year-end and US$ 1.3 trillion by end-2011 (equivalent to 122% of GDP).

Regarding the banking system in the GCC, the study noted that while overall the core banking system is relatively healthy, loan portfolio deterioration suggests only a modest recovery in credit growth, from a weighted average of 2% in 2009 to 6% in 2010, compared with an annual average of 30% in 2002-2008. Nonbank financial firms, such as investment managers and mortgage providers, as well as wholesale banks suffered in the crisis, but the systemic impact would remain contained. Non-performing loans ratios and provisions, however, would continue to rise through 2010.

The IIF also assesses the performance of individual countries in the GCC, and noted that in Saudi Arabia, growth is projected at 3.4% in 2010 and 4.0% in 2011, supported by sizable government infrastructure investment and a modest improvement in private consumption. Expenditure from the $400 billion, five-year public investment program, should spur private sector activity, and the pace of credit to the private sector is expected to accelerate to 7% by the end of the year, following stagnation in 2009. In the UAE, real GDP is expected to grow at the subdued rates of 2.0% in 2010 and 3.1% in 2011, following a contraction of 1.6% in 2009. The continued retrenchment in construction and real estate sectors will more than offset the recovery in the Emirate's core activities of trade, retail sales, and tourism.

Real GDP growth in Kuwait is projected at 3.2% in 2010 and 4.5% in 2011, based on a small increase in oil production and strengthened private sector confidence linked to the government's new US$ 105 billion development plan. The strongest performer in the GCC is again Qatar, where real GDP is projected to grow by 13.9% in 2010 and 10.2% in 2011, driven by large expansions in natural gas production and public investment expenditures. Growth in Oman is expected at 5.1% supported by continued increase in oil output and investment in infrastructure. Bahrain is expected to register a growth rate of 3.7%, reflecting a gradual recovery in financial services.

GCC Main Economic Indicators

	2007	2008	2009	2010f	2011f
In percent					
Real GDP growth	6.7	7.0	0.3	4.4	4.7
o.w. hydrocarbon	2.0	6.4	-5.3	6.0	4.9
o.w.non-hydrocarbon	9.2	7.8	2.7	3.3	4.4
Inflation	6.9	11.1	2.7	3.3	4.4
In percent of GDP					
Current account balance	20.8	23.7	4.9	11.9	14.0
Fiscal balance	18.0	24.5	3.2	9.4	9.3
Foreign assets	163.8	126.7	170.9	162.3	165.5
External debt	43.8	38.9	48.0	42.5	40.4
Net foreign assets	120.0	87.8	122.9	119.8	125.1

Sources: IIF, Bank Audi's Research Department

EFG Hermes sees most GCC countries recording fiscal surpluses in 2010

A recent report released by Investment Bank EFG Hermes on economic growth and fiscal positions in the GCC region indicated that despite the recent sharp fall in global oil prices, they remain in the fiscal comfort zone for GCC countries.

EFG Hermes has, however, marginally reduced its 2010 oil price forecast for Brent crude to US$ 77.0 per barrel (p/b) from US$ 80.0 p/b, as the investment bank now expects a lower average oil price of US$ 75.0 p/b in the second half of 2010. It maintained its 2010 oil price forecast at US$ 85.0 p/b. The study noted that with an average 2010 estimated oil price of US$ 77 p/b, all the GCC countries, except Bahrain, would realize a fiscal surplus. EFG Hermes believes that an annual average oil price between US$ 70-80 p/b is the ideal price level for GCC countries, providing fiscal surpluses and confidence to continue with their investment programs, while not returning to the period of dynamic activity seen in 2007 and 2008.

EFG Hermes projected in its report that GCC countries would continue with their highly expansionary fiscal positions as long as oil prices are sustainably above US$ 60 p/b. The investment bank views a continuity of expansionary budgets, if oil remains above US$ 50 p/b, although with some spending cutbacks.

As per the report, strong foreign exchange reserve positions mean that GCC countries can afford small deficits for a number of years. The budget breakeven oil price for the hydrocarbon-per capita GCC countries (Kuwait, Qatar, and the UAE) remains below US$ 60 p/b, with Kuwait's and Qatar's below US$ 55.0 p/b. The strong foreign exchange reserve position also provides the GCC region with ammunition to counterbalance any contagion from the euro zone.

EFG Hermes expects that GCC spending plans would remain intact. It forecasts a 2010 GCC weighted average non-oil GDP growth of 4.6%, up from just 1.8% in 2009, as governments press ahead with their investment programs. As a matter of fact, the report noted that the growth in the non-oil sector would be the major lever behind growth in GCC countries in 2010, with the exception of Qatar, with substantial increase in liquefied natural gas output.

According to EFG Hermes, this is due to the fact that not all of the oil revenue earned enters the economy, with the majority of oil windfalls invested overseas. As a matter of fact, fiscal policy determines how much of oil earnings are pumped into the economy. In conclusion, the report noted that regional growth would be driven by Abu Dhabi, Qatar and Saudi Arabia. With the current oil price forecast at US$ 77 p/b, EFG Hermes now expects the GCC region's nominal GDP will increase by 14.2% in 2010.

Credit Suisse foresees a further drop in Dubai realty prices

Dubai house prices, which halved since mid-2008 up until end-2009, may drop another 15% to 20% this year in 2010, on account of an increase in supply as more real estate projects are completed, Credit Suisse Group indicated in a recent note on the Dubai real estate market.

Credit Suisse also expects residential prices to decline further in 2011 as the oversupply gap peaks in Dubai. Regarding Abu Dhabi, the financial institution expected its residential prices to come under pressure as new supply comes online, thus narrowing the price gap with Dubai despite the continued supply shortage and the strong replacement demand.

NBK forecasts a real GDP growth of 3% in Kuwait in 2010

Kuwait's economy is set to grow three per cent in real terms this year with most sectors seeing steady growth. The growth could accelerate towards four to five per cent by 2011-12 if the government delivers its large plans and projects in the coming months, as per a study by National Bank of Kuwait (NBK).

The study said that the consumer sector, which had been steadier through last year's economic turmoil, is still holding up well. The real estate sector has been showing improvement in recent months and is returning to levels of activity not seen since 2007-08, except in commercial real estate, where oversupply is weighing on the sector.

The so-called "productive" sectors such as trade, industry and construction are tentatively showing signs of recovery, after a protracted period of stagnation. The oil sector is also recovering along with world demand, and is expected to grow 1.4% this year in real terms. The non-oil sector should grow four per cent this year, to yield a 3% real GDP growth for the country. NBK said the preliminary budget numbers for 2009-10 financial year showed a surplus of US$ 28.0 billion. The bank expects that number would be revised close to about US$ 20.5 billion when the final accounts are released.

The EIU forecasts real GDP growth in Syria to average 4.1% in 2010-2011

In its most recent country outlook on Syria, the EIU forecasted that real GDP growth would pick up from an estimated rate of 3.6% in 2009, when the effect of the global recession was alleviated by strong government spending, to an average of 4.1% in 2010-2011. The report also noted that foreign investment into Syria is likely to rise because of Syria's increasing economic openness and improving international relations, although it would be held back in the short term by the ongoing global squeeze on credit. This would support stronger fixed investment in 2010-11.

As to government consumption, its growth would remain steady in 2010-11, as per the EIU, as the fiscal stimulus is sustained. However, it would remain slightly lower than its level in 2009, when fiscal stimulus was at its peak. In parallel, private consumption growth would pick up in both years.

Regarding consumer price inflation, it is expected to increase over the forecast period, as global commodity prices recover slightly, government subsidies on fuel are reduced and VAT is finally introduced. The EIU forecasts that annual average inflation would be 6.7% in 2010-11, up from just 2.6% in 2009, but well below the peak of 15.7% in 2008.

CISCO forecasts place MEA region on top of mobile data traffic growth

Cisco released its annual Visual Networking Index (VNI) forecasts for 2009-2014 in which it noted that the Middle East and Africa (MEA) region would outperform other regions in terms of mobile data traffic growth, with a projected compound annual growth rate (CAGR) of 133%.

The Cisco VNI forecast methodology rests on a foundation of analyst projections for Internet users, broadband connections, video subscribers, mobile connections, and Internet application adoption. Analyst forecasts are collected from several institutions upon which Cisco layers its own estimates for application adoption, minutes of use, and kilobytes per minute. The adoption and usage assumptions are tied to fundamental enablers such as broadband speed and computing speed.

Global IP traffic (Internet, managed IP, mobile data), which is the one generated by households, university populations and Internet cafés, is expected to increase by a CAGR of 45% between 2009 and 2014 in the MEA region, the highest projected progress when compared to other regions. As for global consumer internet traffic, which encompasses any IP traffic that crosses the Internet and is not confined to a single service provider's network, the Middle East and Africa region is anticipated to be the best performer with a CAGR of 60% over the period 2009-2014.

Regarding business IP traffic which encompasses internet traffic generated by businesses and governments, it is expected to rise by a CAGR of 30% in the Middle East and Africa over the period 2009-2014, a faster pace than the global average of 21%. Moreover, the MEA region is expected to have the strongest mobile data traffic growth among regions at 133 % CAGR, followed by Asia Pacific at 119% and North America at 117%. It is worth noting that mobile data traffic is comprised of handset-based data traffic such as text messaging, multimedia messaging, and handset video services. Mobile Internet traffic is generated by wireless cards for portable computers and handset-based mobile Internet usage.

UAE's Abu Dhabi Investment Authority tops global Sovereign Wealth Fund Institute's rankings

The latest rankings issued by the United States' Sovereign Wealth Fund Institute (SWFI) show that the United Arab Emirates' (UAE) Abu Dhabi Investment Authority (ADIA), Saudi Arabia' SAMA Foreign Holdings and the Kuwait Investment Authority are among the top 10 global sovereign wealth funds (SWFs) in terms of assets under management. Within the top 50, 16 institutes were from the region all of which are oil or gas-based.

Overall, ADIA is ranked at the top of the list having the highest assets under management worth US$ 627 billion. It is followed by Norway's Government Pension Fund Global having US$ 443 billion of assets under management. SAMA Foreign Holdings ranks third with US$432 billion of assets under management, according to SWFI. The Kuwait Investment Authority came seventh with US$ 202.8 billion of asset under management. The latter mentioned entity surpassed China's National Social Security Fund while it came after the Government of Singapore Investment Corporation. At the lower end of the top 50 scale were the UAE's Emirates Investment Authority, Oman Investment Fund and the Abu Dhabi Investment Council.

In general, the UAE topped the Gulf Cooperation Council countries (GCC) in terms of the highest number of SWFs from any Gulf country making it to the top 50 global list. Indeed, out of 15 SWFs, 7 were from the UAE, 2 from each of Saudi Arabia and Oman and the rest from other countries in the region.

The combined assets under management of top 50 global SWFs stood at US$ 3.81 trillion by March 2010, out of which assets of oil and gas related SWFs is $2.27 trillion, according to SWFI. Assets of oil and gas related SWFs in the GCC accounted for 67% of the total while the sum of all regional assets accounted for 40% of US$ 3.81 trillion.

In terms of region, Asia has the largest share being home to as much as 38% of the total global SWFs, closely followed by the Middle East (37%) and Europe (18%).

GCC Sovereign Wealth Funds Global Rankings

Country	Fund name	Global Rank	Assets (in US$ billion)
UAE Abu Dhabi	Abu Dhabi Investment Authority	1	627.0
Saudi Arabia	SAMA Foreign Holdings	3	432.0
Kuwait	Kuwait Investment Authority	7	202.8
Libya	Libyan Investment Authority	12	70.0
Qatar	Qatar Investment Authority	13	65.0
Algeria	Revenue Regulation Fund	15	54.8
UAE - Dubai	Investment Corporation of Dubai	25	19.6
Bahrain	Mumtalakat holding company	27	14.0
UAE Abu Dhabi	International Petroleum Investment Company	28	14.0
UAE Abu Dhabi	Mubadala Development company	30	13.3
Oman	State General Reserve Fund	35	8.2
Saudi Arabia	Public Investment Fund	37	5.3
UAE- Ras Al Khaimah	RAK Investment Authority	42	1.2
UAE- Federal	Emirates Investment Authority	48	-
Oman	Oman Invesment Fund	49	-
UAE Abu Dhabi	Abu Dhabi Investment Council	50	-

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

UAE's Etisalat in talks over US$ 4 billion stake in India's Reliance Communications

Emirates Telecommunications (Etisalat) is in talks with Reliance Communications about purchasing a 26% stake in India's second-largest mobile company by subscribers, at an estimated value of US$ 4 billion.

For Reliance Communications, a stake sale to Etisalat would bring in cash to fuel expansion at a time when the company is investing large sums in third-generation mobile spectrum.

Reliance Anil Dhirubhai Ambani (ADA) Group is India's largest private sector information and communications company. Reliance ADA has interests in communications (Reliance Communications), financial services (Reliance Capital Ltd) and generation, transmission and distribution of power (Reliance Energy).

Reliance ADA has established a pan-India, high-capacity, integrated (wireless and wireline), convergent (voice, data and video) digital network, to offer services spanning the entire infocomm value chain.

Etisalat is one of the largest telecommunications companies in the world and a leading operator in the Middle East and Africa, headquartered in the UAE. Etisalat operates in 18 countries across Asia, the Middle East and Africa, servicing over 100 million customers.

Elisabetta Gucci plans 40 hotels over 15 years in the Middle East, Far East and South America

Luxury hotelier Elisabetta Gucci is planning 40 hotels over the next 15 years in the Middle East, Far East and South America and aims to open its first hotel in Dubai at the end of 2010, according to company executives.

Construction of the 87-room luxury boutique hotel in Dubai is completed, with the firm eyeing a second hotel in China next year, according to the same source.

The company intends to develop other hotels for the GCC, and in other countries and regions namely Russia, China, Far East, Africa and South America, particularly Brazil, according to company sources.

The hotelier partnered with Abu Dhabi developer Baitek International Real Estate to develop the chain of hotels in the Gulf Arab region.

The hotelier plans to form a hotel management company in June to manage its hotels worldwide, according to the same source.

Bombardier signs US$ 241 million contract with Saudi Oger for the supply and maintenance of a monorail system in Saudi Arabia

Bombardier Transportation has signed a contract with Saudi Oger Limited, a leading Saudi Arabian construction company, for the supply, installation, operation and maintenance of a 3.6 km Bombardier Innovia Monorail 300 system for the King Abdullah Financial District, the new financial and business center under development in Saudi Arabia's Riyadh.

Bombardier, as subcontractor to Saudi Oger, would design and supply all of the system-wide electrical and mechanical elements for the six-station monorail system, including six Innovia Monorail 300 trains (12 cars) with Bombardier Cityflo 650 automatic train control technology for driverless operation.

It would also provide project management, systems engineering and integration, testing and commissioning services. Engineering and design for the Monorail vehicles would be centered at Bombardier's site in Kingston, Canada, and manufacturing of the 12 cars would be carried out by Bombardier in Pittsburgh, US.

Together with Saudi Oger, Bombardier would also provide its branded Innovia operation and maintenance services for the system for an initial contractual period of ten years.

The total value of Bombardier's contract is US$ 241 million and its completion is scheduled for 2012, with operation and maintenance services to commence at the start of revenue service.

Headquartered in Canada, Bombardier is a global manufacturer of transportation solutions, from commercial aircraft and business jets to rail transportation equipment, systems and services. Its revenues for the fiscal year ended January 31, 2010, were US$ 19.4 billion. Its shares are traded on the Toronto Stock Exchange.

Saudi Oger, established in 1978 as a construction company in Riyadh, has become one of the leading construction, facilities management service provider and infrastructure project development companies in Saudi Arabia and the region.

Saudi Oger Limited is a multi-company with subsidiaries and affiliates in Saudi Arabia, UAE, Jordan, China, US, France and Morocco.

EQUITY MARKETS

Mixed movements in prices in regional stock markets

Regional equity markets saw mixed movements in prices during this week, with the Saudi Arabian market topping the risers list and the UAE markets leading the decline. All in all, MSCI Arabian Markets Index posted a 1.1% increase in prices week-on-week, bucking global and emerging markets that registered decreases of 1.7% and 0.4% respectively.

In Saudi Arabia, the Tadawul was the best performer in the region during this week, showing a 2.5% rise in prices. The market racked up large gains as investors embraced the rise in oil prices over the Saudi weekend, especially in the petrochemicals sector. Petro Rabigh's share price rose by 1.6% to SR 25.30. Saudi Kayan Petrochemical was among the most traded stocks during this week. Its share price increased by 7.6% to hit SR 17.80. In addition, SABIC's share price grew by 7.2% week-on-week to close at SR 85.75. Credit Suisse reiterated its "outperform" rating on SABIC with target price of SR 120, citing a near 25% recent correction in the share price, adding that SABIC remains well positioned to capitalize on the global economic growth story.

The Egyptian Exchange was the second best performer this week, with a 2.4% increase in prices. Orascom Telecom's share price increased by 7.8% week-on-week to hit LE 6.09. Orascom Telecom has received a letter from the Algerian government indicating its willingness to begin negotiations with regards to buying the company's Algerian unit. Finally, it is worth noting that Egypt launched this week an exchange (Nilex) offering smaller firms a new way to raise capital. Ten firms are listed on Nilex, which has fewer disclosure requirements than the main Egyptian market to make it suitable for smaller companies with a shorter track record.

The Qatar Exchange saw a 1.8% increase in prices week-on-week. Al Khaliji's share price rose by 4.1% week-on-week to close at QR 17.80. The board of directors of Al Khalij Commercial Bank Q.S.C (Al Khaliji) approved the initiation of merger talks with International Bank of Qatar (IBQ).

The UAE equity markets were the worst performers in the region during this week, posting a 4.2% drop in prices relative to the previous week. Downside pressures came from leading stocks in the real estate, energy and banking sectors, as negative sentiment in global markets and lack of buying interest continued to weigh heavily on the UAE bourses. In Abu Dhabi, Dana Gas's share price fell by 6.7% week-on-week to close at AED 0.7. It is worth mentioning that the company plans to farm-out 20-30% of its fully-owned Egyptian asset before the end of the year. Taqa's share price fell by 1.8% week-on-week, ending at AED 1.10, on the back of a week-on-week decline in oil prices. As for real estate stocks, Sorouh Real Estate's share price decreased by 0.5% to close at AED 2.10. Credit Suisse downgraded Sorouh Real Estate this week to "neutral" from "outperform" rating.

In Dubai, Emaar Properties's share price ended 6.2% lower at AED 3.20. Credit Suisse trimmed Emaar's share price from AED 5.25 to AED 5.19. On the other hand, the National Central Cooling Company, Tabreed's shares fell by 14.2% week-on-week to close at AED 0.36. The company said its shareholders approved a recapitalization plan that includes restructuring an AED 1.7 billion sukuk and the issue of up to AED 4.2 billion more in bonds. It also received the approval to cancel up to 970 million shares of AED 1 each. The company said it will enter into discussions with creditors, including banks, to restructure its AED 1.7 billion sukuk. Last week, Tabreed said it didn't pay the annual distribution due on May 19 for its Islamic bond.

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	143.0	0.0%	-0.7%	10.4	-90.5%	0.6	12,065.3	4.5%	9.5	1.31
Jordan	133.5	-1.5%	-11.0%	186.0	47.9%	126.5	29,312.8	33.0%	18.1	1.57
Egypt	808.8	2.4%	3.0%	218.5	-74.7%	191.7	72,631.2	15.6%	11.1	1.66
Saudi Arabia	383.0	2.5%	-1.6%	5,317.9	-14.5%	866.4	312,690.4	88.4%	14.7	1.87
Qatar	605.1	1.8%	-1.0%	366.7	-5.9%	45.9	100,240.9	19.0%	10.2	1.96
UAE	199.4	-4.2%	-13.0%	418.6	-28.8%	942.0	126,640.3	17.2%	10.3	0.98
Oman	837.7	-1.2%	0.1%	49.0	-31.5%	53.0	17,052.8	14.9%	8.5	1.31
Bahrain	282.0	-3.1%	-15.1%	6.8	15.6%	19.6	16,966.3	2.1%	10.9	1.04
Kuwait	611.6	-0.7%	10.3%	357.4	-42.2%	822.4	101,359.1	18.3%	14.4	1.42
Morocco	417.2	1.3%	0.0%	238.3	-11.1%	3.6	65,530.4	18.9%	16.8	3.47
Tunisia	1,158.2	-1.4%	-1.3%	-	-	2.9	9,149.4	-	15.3	1.94
Arabian Markets	**470.7**	**1.1%**	**0.0%**	**7,169.6**	**-22.6%**	**3,071.7**	**854,489.5**	**43.6%**	**12.8**	**1.60**

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

No change in regional bond prices week-on-week

Wait-and-see mood continued to be the main feature characterizing fixed income markets across the region during this week, on concerns about the level of writedowns on bad loans and other losses at European banks over the next couple of years that sparked new worries about the global economic recovery and lessened demand for riskier assets in general. Within this context, the Audi compiled weighted Middle East average yield remained almost stable this week, as shown by a very tiny decline of two basis points relative to the previous week. In parallel, the CDS spread remained almost stable in many regional markets, noting that the emerging markets saw a 17 basis points rise on average in CDS spread week-on-week.

While Middle Eastern issuers were still characterized by a reluctant mood to tap international bond markets until investor sentiment improves and market conditions regain stability, the region saw this week some interest in issuing local currency denominated bonds. In fact, Qatar issued during this week QR 10 billion (the equivalent of US$ 2.7 billion) in eight-year conventional and Islamic bonds with 6.5% coupon to local banks. Qatar's first local currency-denominated bonds followed calls from Qatar Central Bank officials to issue a domestic bond programme to mop up excess liquidity in the banking system caused by government cash injections intended to shore up the sector in the aftermath of the global financial crisis. The Qatari Riyal bond issue will be seen as a benchmark to develop a domestic bond market, provide a new vehicle to pool excess liquidity in the banking sector and diversify its funding away from Dollars. One five billion-riyal side of the issue was evenly split with five local conventional banks getting QR 1 billion each with no bidding competition, while four Islamic banks shared the rest. The Islamic part was an ijara, a structure in which an Islamic bank buys an asset and leases it to a customer for an agreed rental fee instead of charging interest. The coupon is paid semi-annually. The bonds were only sold to local investors and are transferable only within Qatar. They are expected to be listed later this year on the Qatar Exchange.

On the other hand, within the context of the lingering wait-and-see mood in the region, the Dubai Department of Finance stated this week that it will hold "non-deal" meetings with fixed income investors in Europe as it seeks to update potential investors on the emirate's economy. HSBC Holdings Plc and Mitsubishi UFJ Financial Group Inc. were hired to help arrange the briefings.

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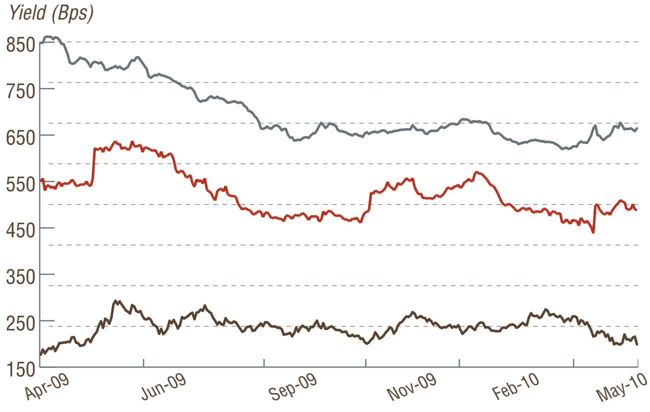
In parallel, National Bank of Abu Dhabi announced its plan to tap the Malaysian market through raising MYR 300-500 million via a five-year senior & Islamic bond by the end of June, with an indicative yield of 4.70%. The Ringgit-denominated issue will be arranged by HSBC and Maybank Investment Bank. NBAD's plan to tap the Malaysian market came within the context of high demand for sukuks in the Far East country. In addition, the bank announced this week the partial repurchase of AED 17.5 million of its outstanding 2018 subordinate convertible notes that are listed on the London Stock Exchange.

Despite current reluctant mood to tap international bond markets, recent sovereign bond issuance in the region highlights the active efforts of the region's government authorities and regulatory bodies to expand the regional debt market. In fact, more active regional bond markets could play a vital role in long-term project financing and portfolio diversification, while also providing broader funding access to small and medium-sized enterprises in the region. However, the key obstacles facing the growth of the corporate debt market in the region include, according to a recently released Fitch ratings note, the absence of quasi risk free benchmark yield curve, limited liquidity and market efficiency. The existence of bond and sukuk secondary trading platforms, improved corporate governance standards, and the strengthening of investor protection rights should further enhance investor's appetite for GCC bonds, according to the same source.

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	4-June 2010	28-May 2010	31-Dec 2009	Week-on-week	Year-to-date
Abu Dhabi	120	120	151	0	-31
Dubai	475	490	445	-15	30
Qatar	97	90	105	7	-8
Saudi Arabia	70	71	85	-1	-15
Bahrain	160	160	210	0	-50
Oman	175	167	127	8	48
Egypt	215	215	260	0	-45
Lebanon	300	300	281	0	19
Emerging Markets	306	289	272	17	34

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	B/Stable
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

	4-Jun-10	28-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%	0.54%	0.25%	0.00%	0.29%
US Discount Rate	0.75%	0.75%	0.50%	0.00%	0.25%
US 10-year bond	3.21%	3.30%	3.84%	-0.09%	-0.63%

FX RATES (per US$)

	4-Jun-10	28-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)	47.30	47.10	45.75	0.4%	3.4%
Jordanian Dinar (JOD)	0.71	0.71	0.71	0.0%	0.0%
Egyptian Pound (EGP)	5.66	5.66	5.49	0.1%	3.3%
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	0.3%	1.4%
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)	224.55	224.50	203.00	0.0%	10.6%
NORTH AFRICA					
Algerian Dinar (DZD)	73.47	72.98	70.42	0.7%	4.3%
Moroccan Dirham (MAD)	9.13	8.93	7.88	2.2%	15.9%
Tunisian Dinar (TND)	1.53	1.51	1.32	1.3%	15.5%
Libyan Dinar (LYD)	1.33	1.32	1.23	0.8%	8.4%
Sudanese Pound (SDG)	2.29	2.27	2.24	1.0%	2.4%

COMMODITIES (in US$)

	4-Jun-10	28-May-10	31-Dec-09	Weekly Change	Year-to-date
Crude oil barrel (Brent)	71.0	73.0	77.7	-2.7%	-8.6%
Gold ounce	1,219.0	1,213.8	1,095.7	0.4%	11.3%
Silver ounce	17.4	18.4	16.8	-5.3%	3.2%
Platinum ounce	1,510.0	1,543.5	1,467.0	-2.2%	2.9%

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