The MENA Weekly Monitor

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2010

ECONOMY

p.2 ▶ World Bank sees tentative signs of recovery emerging in the MENA region

The World Bank released an update on its Global Economic Prospects Report, in which it noted that the Middle East and North Africa region (MENA) is currently showing signs of recovery.

SURVEYS

p.4 ▶ Sharm Al Shaikh ranks first in the MENA region in hotel occupancy while Kuwait and Amman lag behind

The hotel benchmark survey conducted by Ernst & Young indicated that hotel occupancy in Sharm Al Shaikh was at 87% in the first quarter of 2010, up by 10.1% relative to the same period of 2009. Sharm Al Shaikh had the highest occupancy among 15 cities in the region.

CORPORATE NEWS

p.5 ▶ India's Bharti Airtel closes US$ 9 billion Africa deal with Zain

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MARKETS IN BRIEF

p.6 ▶ Equities boast overall stability, debt markets see some price increases towards end of week

While uncertainties over European sovereign-related credit risk were the main feature across the globe and in most Middle Eastern debt markets lately, investor sentiment somewhat improved over the course of the week on the back of some positive economic data released in the US and Far East (China, Japan). This had a slightly favorable impact on the region's debt markets with some price hikes towards the end of the week, as the Audi compiled weighted average bond yield nudged down slightly week-on-week (by six basis points). Within this context, 5-year CDS spreads remained stable on the overall, posting little change -if any- week-on-week. On the equity market front, a wait-and-see attitude continued to dominate activity in the region during most of this trading week. Arabian markets remained overall stable with a tiny 0.3% weekly decline in prices as per MSCI data, with lackluster mood throughout most of the week and some negative specific local market news mostly offset by positive Saudi stock performance on the back of steadily rising oil prices.

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

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World Bank sees tentative signs of recovery emerging in the MENA region

The World Bank released an update on its Global Economic Prospects Report, in which it noted that the Middle East and North Africa region (MENA), in particular, is currently showing signs of recovery. Developments in the external environment for the region have been generally favorable over the second half of 2009 and into the first months of 2010, as the financial crisis and global recession have given way to hopes of stronger recovery, led by the developing countries.

However, changes in international financial markets and economic growth developments have also shifted to favor, or have placed at some disadvantage, the region's diverse set of countries grouped into high-income and developing oil exporting countries, and the more diversified economies. From 2008 through 2010, regional government policies shaped the outlines of domestic absorption growth - depending on the availability of fiscal space and inflation headroom - and the manner in which these measures would be modified or withdrawn over the course of 2010 through 2012 would play a key part in the outlook. Just as during the decline of regional growth into the global recession of 2009 differed substantially by country, so recovery from the crisis would differ. This would depend on the set of initial conditions, and the intensity of effects flowing though the transmission channels, namely the price of oil and the balance of payments, reflecting impacts on trade, remittances and FDI flows. Nonetheless, serious headwinds for both oil- and diversified exporters have cropped up in the early months of 2010.

The report noted that as the intensity of global recession began to ease in latter 2009, upward pressure on oil prices emerged, emanating from market expectations of eventual return of strong fuels demand among developing countries, and substantial cutbacks in OPEC crude oil production to restrict growth of global supply and set a floor under prices. Together these developments yielded a gradual increase in oil and gas revenues for the high-income, as well as low and middle income oil exporters of the region, beginning in late 2009 and continuing into the first months of 2010. The aggregate increase amounted to 25%, carrying total revenues to an annualized rate of US$ 605 billion as of January 2010. This contrasts favorably with total 2009 earnings of US$ 530 billion, offering some scope for optimism looking forward.

Crude oil production cutbacks over 2009 and into 2010, initiated in an effort to reduce massive global stocks, were substantial and economically damaging for the high-income oil exporters, pushing oil-sector GDP well into decline. Generous expenditure of reserves was used as offsets to support the non-oil economy from fallout. Crude oil output declines for the group ranged from 8% to 9% from year-earlier levels by mid-2009, registering a 7.8% cut for the year. From mid-2009, production declines eased, and crude oil output recouped to stand 2% below January 2009 levels by January 2010. Having achieved this modicum of production management (given traditional OPEC-quota non-compliance), and with stronger GDP gains in developing countries, oil prices continued to move well above US$ 70/barrel in early 2010 from US$ 50/barrel as of spring 2009.

Indeed, after five consecutive quarters of decline, world oil demand moved into positive territory during the final quarter of 2009, led by strong demand in China, up 1.3 million barrel/day or 17% (year-on-year). But global crude oil supplies are ample. OPEC's spare capacity has increased to 6.5 million barrel/day following the recent cutbacks, roughly the level as of 2002 when oil prices registered US$ 25/ barrel.

For the diversified economies, there are signs of incipient revival in goods exports, being echoed to a lesser degree in a return of industrial production to stronger growth. Inflation has eased to more moderate rates in these economies, helping to support monetary measures designed to shelter financial systems from distress in the context of crisis. And despite the global downturn, reductions in remittances, tourism and FDI flows to the developing region may be considered moderate with respect to how far such flows could have fallen, given the deterioration in economic conditions in source countries. However, for oil and diversified exporters alike, economic headwinds have cropped up during the late spring months of 2010.

Middle East and North Africa forecast summary

percentage growth	2009e	2010f	2011f	2012f
Real GDP	1.9	3.9	4.3	4.4
Private consumption	3.6	4.1	4.7	5.2
Public consumption	10.7	8.5	6.5	5.7
Fixed investment	4.5	4.6	4.4	4.5
Exports	-12.3	2.0	4.3	5.1
Imports	-7.3	4.4	5.7	6.5

Sources: World Bank, Bank Audi's Research Department

Markaz notes a 120% rise in GCC corporate earnings in the first quarter of 2010

The UAE led the way as GCC corporate earnings rocketed 120% in the first quarter of 2010, compared to the previous quarter, Kuwait Financial House (Markaz) has said in its latest report. Earnings recorded in the UAE were 17 times higher than Q4 in 2009 and rose to US$ 3 billion, Markaz added. Banks and financial services were key growth drivers, it said, adding that a main reason for growth was probably related to Dubai World's debt announcement in November.

Overall, the GCC posted robust earnings growth for the quarter, with earnings of US$ 11.4 billion in Q1 2010. Kuwait was the second best performer for Q1 corporate profits, growing 10 time year-on-year to US$ 1 billion, as the financial sector showed signs of revival after a dismal 2009.

Saudi Arabia's corporate earnings grew 68% compared to Q1 2009, boosted by the performance of SABIC, which reported profits of US$ 1.4 billion. On the flip side, profits from the banking sector contracted 10% to US$ 1.5 billion, as provisioning rose.

Qatar's corporate earnings grew 6% year-on-year in Q1 2010 to US$ 2 billion, driven by telecom growth while Oman earnings dipped 16% in the same period compared to Q1 2009. Bahrain also saw earnings fall 10% as both countries suffered from poor performances by their respective banking sectors.

Citigroup forecasts a 1.6% growth in Dubai's GDP in 2010

Dubai's GDP is projected to grow 1.6% this year to US$ 69.0 billion and increase by 4.7% in 2011 to reach US$ 72.3 billion, according to Citigroup's Macro View Report. By 2012, Citi estimated, Dubai's GDP would jump by 6.3% to US$ 76.8 billion. However, the report sees short-term pain in the Emirate due to the downturn in real estate sector as well as a reduction in investment and knock-on effects on consumption. Despite this, Citi sees compelling reasons for optimism with regards to Dubai's growth prospects going forward.

Citi draws a rosy picture of medium-to-long-term recovery in Dubai based on a wide range of expectations that the GCC would be among the first to recover from the global financial crisis and Dubai's position as a regional hub would benefit from regional growth prospects.

Though the report estimated a drop of 14% in consumption in Dubai last year, it predicted a good recovery in the near future along with the recovery in global economy. International business would likely once again seek out opportunities to invest in the region, and Dubai looks well-poised to benefit from this, as per the report. Population growth should be supported by this, propping up demand. Citi believes its forecasts for consumption growth are conservative, at 1.1% in 2010, and just under 4% in 2011, leaving total consumption in 2012 still 6% below 2008 levels in real terms.

The report also highlighted estimates of a strong surplus in Dubai's trade balance in the coming years as a main factor of the positive GDP growth rates. 50% of Dubai's exports are destined for markets in South and West Asia, principally Iran, Pakistan, and India, which the IMF expects to grow at an average rate of 7% per year over the coming five years. Exports to these markets had been booming prior to the global recession, at an average rate of 27% per annum between 2006 and 2008, and thus Citi's assumption of 10% per year in 2010-2012 looks conservative on historical standards. Import growth would likely slowdown from now on, widening Dubai's trade surplus in the medium term, as per the report.

Blumberg views significant growth prospects for the Saudi real estate market

A recent noted released by the US-based Blumberg Capital Partners, which provides a full range of real estate investment management services, indicated that the Saudi real estate market is heading for strong growth. The agency believes the vision and steady expansion of the Saudi market provide a significant opportunity for global investors, bearing in mind that the sector reaped and is still benefitting from the positive spillovers of the US$ 400 billion expansion plan announced by the Saudi government when the crisis first erupted.

As Saudi Arabia made plans to build massive economic cities, Blumberg said, often during crises that other markets were experiencing, this may be the best time to invest and grow, particularly when it comes to infrastructure creation. The agency was referring to the Kingdom's plans to build economic cities such as King Abdullah Economic city in Rabigh, the Jazan Economic City in Jazan, the Knowledge Economic City in Madinah and the Hail Economic City in Hail.

The EIU forecasts a 5.2% real GDP growth in Egypt in FY 2009/10

In its most recent country outlook on Egypt, the Economist Intelligence Unit (EIU) noted that quarterly data show that growth picked up steadily over the first three quarters of the fiscal year 2009/10, reaching 5.8% year-on-year in January-March 2010 (the 3rd quarter of the fiscal year), and it forecasted that it would average 5.2% over the full fiscal year. Although a respectable outturn given the global context, this would not be sufficient to lift employment growth fast enough to meet the needs of the large number of new entrants coming into the labor market. The government's fiscal stimulus packages, aimed particularly at spending on infrastructure, would continue to offset some of the negative effects of the slowdown on the manufacturing sector and employment, and would help sustain investment and household demand. Private investment also remains strong in the construction sector, and the public-private partnership program in 2010 and 2011 should help to boost demand in the sector.

As per the EIU, the main risk to this forecast stems from external factors. If Egypt's export markets do not pick up as quickly as forecasted, growth could slip even further below the 7-8% level that is needed to lift living standards significantly. However, assuming that investment, both domestic and foreign, holds up, the EIU forecasts that real GDP growth would strengthen slightly to 5.4% in 2010/11.

Sharm Al Shaikh ranks first in the MENA region in hotel occupancy while Kuwait and Amman lag behind

The hotel benchmark survey conducted by Ernst & Young indicated that hotel occupancy in Sharm Al Shaikh was at 87% in the first quarter of 2010, up by 8.0% relative to the same period of 2009. Sharm Al Shaikh had the highest occupancy among 15 cities in the region.

In parallel, occupancy in Amman and Kuwait was at 58% each, the lowest in the region. Still, occupancy for the first mentioned city went up by 3.0% while the latter witnessed a drop of 6.0% from the first quarter of 2009.

The average rate per room in Sharm Al Shaikh was at US$ 57 in the first three months of 2010, which ranks it as the 14th most expensive city in the region, after Amman (US$ 146), Madina (US$ 141) and Cairo (US$ 114) and before Hurghada (US$ 40). The average rate per room in Sharm al Shaikh edged up by 10.0% from the first quarter of 2009 while those of Cairo and Hurghada witnessed a weaker increase of 0.8% and 1.9%, respectively.

It is worth noting that Doha was the most expensive city with an average room rate of US$ 305 in the first quarter of this year, down by 13.8% relative to the same period of the previous year. The average room rate in the city surpassed Abu Dhabi (US$ 279), Kuwait (US$ 269), Beirut (US$ 249) and Dubai (US$ 247).

Revenues per available room (revpar), or rooms yield, in Sharm Al Shaikh were at US$ 50 in the first quarter of 2010, up from US$ 41 in the same period of 2009, ranking the city 14th regionally after Amman (US$ 85), Madina (US$ 88) as well as Cairo (US$ 89) and before Hurghada (US$ 34). Doha had the highest room yield in the region of US$ 219.

Middle East Hotel Performance (First Quarter of the Year)

(in %)	2008	2009	2010	Change 10/09
Sharm El Shaikh	89	79	87	8.0
Hurghada	84	73	85	12.0
Dubai	90	76	82	6.0
Cairo	84	72	78	6.0
Muscat	86	76	75	-1.0
Makkah	52	62	75	13.0
Abu Dhabi	87	80	75	-5.0
Jeddah	66	70	73	3.0
Doha	79	78	71	-7.0
Al Ain	76	73	70	-3.0
Beirut	37	69	69	0.0
Madina	51	55	62	7.0
Riyadh	84	68	61	-7.0
Amman	66	55	58	3.0
Kuwait	65	64	58	-6.0

Sources: Ernst & Young, Bank Audi's Research Department

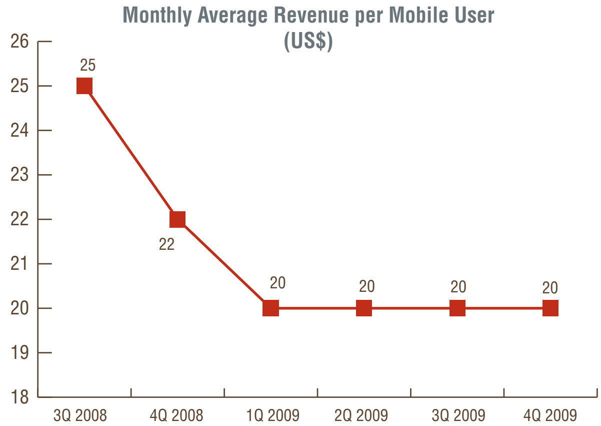
Average Revenue per Mobile User stands at US$ 20 in the Middle East

France's Dataxis Intelligence, a market research and statistical intelligence company, indicated that the Middle East Mobile users generated revenues of US$ 20 per person. Indeed, this is one of the highest rates following North America and Europe. According to the release, the region remains on of the most dynamic mobile markets in the world as it witnessed an increase of its subscriber base by 23% in 2009 and revenues edged up by 12% during the same period.

A snapshot of revenues per country shows Kuwait as the best performer with US$ 52 in the last quarter of 2009, followed by the United Arab Emirates with US$ 42, and Lebanon with US$ 40. Then came Qatar, Bahrain and Saudi Arabia with revenues of US$ 39, US$ 35 and US$ 27, correspondingly. The final six were Oman (US$ 25), Palestine (US$ 22), Syria (US$ 18), Jordan (US$ 16), Iraq (US$ 13) and Yemen (US$ 15). One can easily notice that there are huge gaps between subscribers in Kuwait who spend up to US$ 52 a month and those in Yemen that expend just US$ 5 for mobile services usage.

Also interesting to emphasize on is the fact that more than half of the region's 12 covered countries generated a higher average revenue per mobile user than Europe's average of US$ 23. Moreover, it is worth signaling that the majority had a higher average than the US$ 16 posted on a worldwide basis.

An overview of the quarterly average revenue per mobile user in the region shows a constant trend in 2009 as it did not change from US$ 20 throughout the year. Since 2008, the indicator dropped from US$ 25 in the third quarter of 2008 to US$ 22 in the fourth quarter of the same year to reach US$ 20 in 2009.



Sources: Dataxis, Bank Audi's Research Department

CORPORATE NEWS

India's Bharti Airtel closes US$ 9 billion Africa deal with Zain

India's Bharti Airtel has completed its US$ 9 billion acquisition of African operations from Kuwait's Zain in a deal that makes the Indian firm the world's fifth biggest cellphone company by subscribers, according to company sources.

Bharti Airtel thus gets the Kuwaiti company's mobile operations in 15 African countries.

Bharti Airtel aims to have 100 million subscribers and US$ 5 billion per annum in revenue in Africa by 2012/13, according to company executives.

According to Zain statements, the company received US$ 7.9 billion from Bharti Airtel and would receive a further US$ 400 million within 12 months after completing other formal requirements. It would also receive another US$ 700 million after one year of the deal closing, according to company officials.

India's Bharti Airtel Limited is one of the leading emerging market telecom services providers with operations in 18 countries across Asia and Africa. The company is structured into four strategic business units, namely mobile, telemedia, enterprise and digital TV. The mobile business offers services across 18 countries in Asia and Africa. The Telemedia business provides broadband, IPTV and telephone services across India. The Enterprise business provides end-to-end telecom solutions to corporate customers and national and international long distance services to carriers. The Digital TV business provides DTH services across India.

Established in 1983, Zain is currently one of the leading mobile and data services operators in the region with a commercial footprint in 8 Middle Eastern and African countries providing a comprehensive range of mobile voice and data services to over 31.4 million active individual and business customers as at end-March 2010.

UAE's Emirates Airline signs US$ 11.5 billion deal with Airbus

UAE's Emirates Airline signed a deal to buy 32 additional A380 'superjumbo' aircraft from European manufacturer Airbus, in an order with a list price of US$ 11.5 billion, according company press releases.

In addition to the orders placed in Berlin, Emirates has 48 Airbus 380s, 70 Airbus 350s, 18 Boeing 777-300s and seven Boeing air freighters on order, totaling 143 wide-body aircraft worth more than US$ 48 billion, according to the same source.

This latest order, adding to 58 A380s previously ordered, affirms Emirates' strategy to become a world leading carrier and to further establish Dubai as a central gateway to worldwide air travel, according to company statements.

Jordan's Saraya Aqaba plans US$ 300 capital hike to complete US$ 1 billion Red Sea resort development

Jordan's Saraya Aqaba recently announced that its board approved a plan to raise US$ 300 million in new equity from shareholders to enable the firm to complete a US$ 1 billion Red Sea resort development.

The move would raise the firm's equity capital to US$ 773 million.

Banking executives say the capital hike would enable the firm to get further financing to complete the mixed-use leisure and tourism resort located on a 634,000 square meter site on the northern tip of the Gulf of Aqaba.

The additional financing from a banking consortium led by Arab Bank is expected to match the equity capital hike.

The firm has already signed deals with Starwood Hotels and Resorts World Wide Inc and the UAE's Jumeira to manage around 1,100 hotel rooms in the resort that features hotels, beachfront villas, a convention centre, an old souk and a wharf promenade.

Spinneys Group plans operations in Libya next year

Spinneys Group, the supermarket operator with a string of stores across Lebanon and Egypt, is close to signing a deal to open two full-sized hypermarkets in Libya, according to company officials.

The move would be through a tripartite joint venture involving Spinneys, a group of unnamed Syrian investors, and a Turkish mall developer, according to the same source.

The first hypermarket should be open by end-2011, and the second a year after that, as per Spinneys Group statement. Each store would require investment of around US$ 8 million to US$ 10 million, a mixture of equity and debt and the deal should be signed in the next quarter, according to the same source.

The group has already announced plans to open four stores in Qatar and Jordan in 2010 and 2011, while in the same period it would add seven outlets to its existing eight in Lebanon and Egypt.

EQUITY MARKETS

No week-on-week change in Arabian equity prices on the overall

A wait-and-see attitude continued to dominate equity markets during this trading week across the region. Investors somewhat stayed reluctant to take fresh positions, and regional stock markets remained stable week-on-week, posting a tiny 0.3% decline in prices as per MSCI Arabian Markets Index. Some of the region's large stock exchanges, namely Kuwait, UAE, and Egypt, actually saw mild weekly drops in their overall price index on the back of some negative local market specific news and overall lackluster mood, but were mostly offset by region heavyweight Saudi's positive performance on the back of rising oil prices over the covered period.

The Kuwait Stock Exchange saw a 5.9% drop in prices this week. Zain's shares resumed trading this week after an 11-day suspension pending the distribution of its 2009 dividends. Its price tumbled by 14.9% to close at KWD 1.140, and weighed on the overall stock index. India's Bharti Airtel has announced the purchase of Zain Group's African assets for US$ 9.0 billion, most of which has been received by the Kuwaiti telecom company. Such assets accounted for a sizeable chunk (about half) of the group's revenues in 2009. While there were expectations in the market that the stock would rally ahead of a possible dividend from this sale, the company said this week the payout will not be made before 2011.

The Egyptian Exchange posted a 4.7% decline in prices during this week, mainly undermined by telecommunication stocks. Orascom Telecom's share price ended 9.2% lower at LE 5.53. MTN Group ended talks to acquire US$ 10 billion of assets of Orascom Telecom Holding SAE. The talks failed after Algeria's government blocked a possible sale to MTN of Orascom's Algerian unit. Moreover, Telecom Egypt's share price declined by 1.7% to reach LE 16.30. Goldman Sachs initiated coverage of Telecom Egypt with a "neutral" rating and a 12-month target price of LE 20.5. In parallel, Ezz steel's share price closed 2.9% lower at LE 18.6. HC Securities lowered Ezz steel's target price by 13%, stating that continued pricing pressures and scrap price volatility are key risks. Finally, a public offering of shares in Egyptian dairy and juice maker Juhayna Food Industries has been fully covered this week. The public subscription, which involved about 41 million shares offered at LE 4.66 each, was the first IPO in Egypt since 2008.

The UAE equity markets posted a 2.9% weekly decline in prices, within the context of a lack of strong momentum across domestic markets. The construction sector led the decline. This came after a Credit Suisse note that stated that residential prices in Dubai are expected to decline by another 15-20% as the oversupply gap peaks in 2011, and residential prices in Abu Dhabi are expected to come under pressure as new supply comes online. Arabtec Holding's share price declined by 3.5% week-on-week to close at AED 1.93, despite news that the company won three engineering and construction contracts in Abu Dhabi worth US$ 204 million to undertake civil, engineering and construction works for expansion of refineries, and bellwether Emaar's share price closed 2.8% lower at AED 3.11.

In Saudi Arabia though, the Tadawul saw a 2.6% rise in prices week-on-week within the context of steady increase in oil prices throughout the week. SABIC's share price rose by 3.2% this week to close at SR 88.50, with some investors finding its price rather attractive after falling by 15.2% during the month of May. Saudi Electricity Company's share price ended 21.5% higher at SR 13.00. NCB Capital raised SEC's target price to SR 18.5 from SR 12.4, keeping its "overweight" rating, saying that the new tariff structure that will affect industrial, commercial and government customers, would have significant impact on profitability.

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	142.7	-0.3%	-0.9%	13.3	28.0%	0.9	12,034.6	5.8%	9.5	1.31
Jordan	132.0	-1.1%	-12.0%	112.9	-39.3%	83.5	29,112.2	20.2%	18.1	1.56
Egypt	770.6	-4.7%	-1.8%	666.3	204.9%	662.8	72,180.9	48.0%	10.9	1.64
Saudi Arabia	392.9	2.6%	0.9%	4,705.3	-11.5%	801.0	320,729.5	76.3%	15.7	1.98
Qatar	607.8	0.4%	-0.5%	226.1	-38.3%	26.3	101,289.9	11.6%	10.3	2.01
UAE	193.5	-2.9%	-15.6%	238.8	-42.9%	586.3	124,822.3	9.9%	10.3	0.99
Oman	834.3	-0.4%	-0.4%	43.8	-10.6%	49.0	16,870.1	13.5%	11.1	1.71
Bahrain	263.8	-6.4%	-20.5%	5.5	-19.3%	12.2	16,791.5	1.7%	10.8	1.03
Kuwait	575.5	-5.9%	3.8%	465.0	30.1%	880.2	97,837.8	24.7%	13.7	1.37
Morocco	425.1	1.9%	1.9%	325.2	36.4%	5.1	65,323.0	25.9%	15.9	3.40
Tunisia	1,162.8	0.4%	-1.0%	-	-	3.5	9,123.5	-	14.5	1.88
Arabian Markets	**469.0**	**-0.3%**	**-0.3%**	**6,802.2**	**-5.1%**	**3,107.3**	**856,991.7**	**41.3%**	**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

Somewhat improved investor sentiment drives prices slightly higher towards end of week

While uncertainties over European sovereign-related credit risk were the main feature across the globe and in most Middle Eastern debt markets lately, investor sentiment somewhat improved over the course of the week on the back of some positive economic data released in the US and Far East (China, Japan). This had a slightly favorable impact on the region's debt markets with some price hikes towards the end of the week, as the Audi compiled weighted average bond yield nudged down slightly week-on-week (by six basis points). Within this context, 5-year CDS spreads remained stable on the overall across Middle Eastern markets, posting little change -if any- week-on-week.

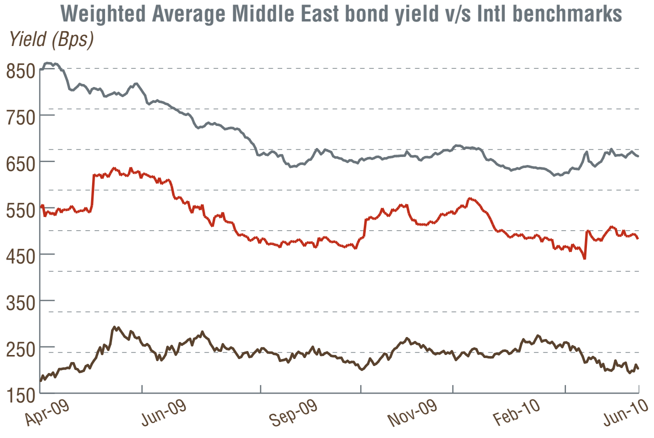
In spite of overall lackluster mood reigning over bond markets recently, some new issues are in the pipeline and were announced this week. On the corporates front, Saudi-based Islamic Development Bank just announced plans to raise US$ 1 billion in Islamic bonds to fund projects in member countries. The bank is working on a project it initiated a couple of years ago to raise US$ 12 billion to finance development projects in Africa. Additional Islamic debt issuance from the Kingdom would come from Ahmed Salem Bugshan (ASB) Group which plans to raise about US$ 100 million in five-year Islamic bonds to finance projects, including a mega steel plant and a real estate project. An ASB top official said the Sukuk would offer a semi-annual return of 125 basis points over US 6M Libor, and added the company is likely to get the issue rated although this is not mandatory for such financial instruments, especially as investors have become increasingly cautious over the past few months.

Further, Kuwait's Burgan Bank shareholders approved a KWD 140 million (about US$ 478 million) bond sale aimed at funding expansion needs. The bank's chairman said the issue, open to both locals and foreigners but with a priority to the former, could take place in a month and be a combination of local and foreign currencies.

Burgan Bank's parent company Kuwait Projects Company Holding (KIPCO) however saw its issuer rating downgraded one notch this week by Moody's, from "Baa1/P-2" to "Baa2/P-3", with the outlook remaining negative. Moody's attributes this rating action to the asset concentration of top three KIPCO holdings which represent a combined 79% of the company's portfolio, and its high exposure to the financial services industry and to a single region (MENA) that helps generate the bulk of its cash flows. It is also worth noting that Moody's also downgraded Emirates NBD's local and foreign currency debt and deposit ratings one notch from "A2/Prime-1" to "A3/Prime-2", with a negative outlook, while the long-term subordinated debt rating was similarly downgraded from "A3" to "Baa1". Ratings take into consideration the bank's exposure to Dubai World and its restructuring proposal which Moody's believes would result in moderate losses that could be easily replenished given Emirates NBD's good core income generating ability, while the outlook reflects Moody's belief of moderate risk of further asset quality deterioration affecting Emirates NBD's ratings.

On the sovereigns front, while Iraq's Finance Minister said the government would seek to issue more bonds, yet without giving a specific time frame, Qatar's Finance Minister announced the government is not considering more domestic debt issues for the time being, following the QR 10 billion (about US$ 2.8 billion) domestic debt papers issued lately. The public sector (including government owned entities) would spend US$ 100 billion within the next four years on various projects, namely infrastructure development, 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	11-June 2010	4-June 2010	31-Dec 2009	Week-on -week	Year-to -date
Abu Dhabi	108	120	151	-12	-43
Dubai	475	475	445	0	30
Qatar	90	97	105	-7	-15
Saudi Arabia	70	70	85	0	-15
Bahrain	160	160	210	0	-50
Oman	180	175	127	5	53
Egypt	215	215	260	0	-45
Lebanon	300	300	281	0	19
Emerging Markets	295	306	272	-12	23

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

	11-Jun-10	4-Jun-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	3.23%	3.21%	3.84%	0.02%	-0.60%

FX RATES (per US$)

	11-Jun-10	4-Jun-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)	47.15	47.30	45.75	-0.3%	3.1%
Jordanian Dinar (JOD)	0.71	0.71	0.71	0.2%	0.2%
Egyptian Pound (EGP)	5.68	5.66	5.49	0.2%	3.5%
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	0.1%	0.0%
Kuwaiti Dinar (KWD)	0.29	0.29	0.29	-0.3%	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)	224.60	224.55	203.00	0.0%	10.6%
NORTH AFRICA					
Algerian Dinar (DZD)	73.52	73.47	70.42	0.1%	4.4%
Moroccan Dirham (MAD)	9.04	9.13	7.88	-1.0%	14.8%
Tunisian Dinar (TND)	1.52	1.53	1.32	-0.3%	15.1%
Libyan Dinar (LYD)	1.33	1.33	1.23	-0.3%	8.1%
Sudanese Pound (SDG)	2.30	2.29	2.24	0.3%	2.7%

COMMODITIES (in US$)

	11-Jun-10	4-Jun-10	31-Dec-09	Weekly Change	Year-to-date
Crude oil barrel (Brent)	74.1	71.0	77.7	4.3%	-4.6%
Gold ounce	1,225.9	1,219.0	1,095.7	0.6%	11.9%
Silver ounce	18.2	17.4	16.8	4.7%	8.0%
Platinum ounce	1,539.5	1,510.0	1,467.0	2.0%	4.9%

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