The MENA Weekly Monitor

Week 27
Jun 25 - Jul 2
2010

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p.2 ▶ FDI in the Arab region down by 15% in 2009

The Arab Investment and Export Credit Guarantee Corporation released its annual report titled Investment Climate in the Arab Countries for 2009, in which it indicated that foreign direct investment (FDI) in 18 Arab countries dropped by 15.1% to reach about US$ 80.7 billion in 2009.

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SURVEY

p.4 ▶ UAE ranks first in the MENA region in total insurance premiums

Leading global reinsurer Swiss Re lately issued its "World Insurance in 2009" annual report covering the insurance sector across 159 countries in the world, in which it ranked the UAE first in the Middle East and North Africa (MENA) region and 45th globally in terms of total insurance premiums in 2009.

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p.5 ▶ Belgium's Besix wins US$ 750 million joint Qatari airport contract

Besix Group, the Belgian contractor that helped build the world's tallest tower in Dubai, won a US$ 750 million contract in a joint venture to build the third phase of the new Doha International Airport passenger terminal complex.

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MARKETS IN BRIEF

p.6 ▶ Global pressures weigh on regional equity markets, and fixed income markets see price drops despite Dubai World favorable news

The decline in global equity markets on the back of a sharp drop in US consumer confidence and lower than expected Chinese economic data, in addition to investors' cautious approach ahead of second quarter earnings, all weighed on regional equity markets during this week, with the Morgan Stanley Capital International Arabian Market Index posting a 4.2% decline in prices week-on-week. As to debt markets, the favorable news regarding Dubai World debt restructuring plan during this week have had no spillovers on regional fixed income markets, as they were already discounted by market players. The Audi compiled weighted average bond yield rose by eight basis points week-on-week. In parallel, the bond spread expanded by 17 basis points this week as the drop in the US consumer confidence and lower than expected Chinese economic data and ECB's refusal to extend liquidity measure to banks, sparked demand for safe-haven debt instruments. This reduced the yield on five-year US Treasuries by nine basis points week-on-week.

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

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FDI in the Arab region down by 15% in 2009

The Arab Investment and Export Credit Guarantee Corporation released its annual report titled Investment Climate in the Arab Countries for 2009, in which it indicated that foreign direct investment (FDI) in 18 Arab countries dropped 15.1% to about US$ 80.7 billion in 2009 from US$ 95.0 billion in 2008.

As per the report, the decline was due to the continuing impact of the global financial and economic crisis on FDI flows worldwide. The study added that the Arab region witnessed the lowest decline compared to other economic blocs, as the investment atmosphere in the Arab states remained largely regular due to vital legislations being enacted, increased incentives for investors, slashing of taxes and the drawing up of bilateral and multiparty transactions. The report added that a number of factors helped the investment atmosphere of the region, including the continuation of reform efforts, namely the expansion of e-government schemes, abidance of Arab governments by privatization strategies, increased investment opportunities and the establishment of industrial zones and towns.

Only seven of the 18 Arab countries, namely Qatar, Lebanon, Sudan, Algeria, Iraq, Yemen and Kuwait, witnessed an increase in incoming FDI over the 2008-2009 period while Saudi Arabia, Egypt, United Arab Emirates, Morocco, Jordan, Tunisia, Syria, Libya, Bahrain, Djibouti, and Mauritania experienced a drop. Kuwait saw the highest yearly increase in FDI of 161.4%, followed by Iraq (+88.5%), Yemen (+57.6%), Lebanon (+33.2%), Qatar (+30.2%), Sudan (+12.4%), and Algeria (+1.3%). Meanwhile, the highest decline of 85.7% was observed in Bahrain, followed by Libya (-79.5%), Djibouti (-60.8%), UAE (-37.6%), Tunisia (-35.2%), and Morocco (-30.2%).

The report indicated that Saudi Arabia attracted the largest chunk of FDI in 2009 amounting to US$ 35.5 billion or 44.0% of the overall FDI into the 18 countries, followed by Qatar with US$ 8.7 billion (10.8%), the UAE with US$ 8.6 billion (10.6%), Egypt with US$ 6.7 billion (8.3%), and Lebanon with US$ 4.8 billion (6.0%).

The report also covered inter-Arab investments and noted that Kuwait topped Arab countries in terms of regional outward investments. Indeed, Kuwaiti investments in eight Arab countries amounted to approximately US$ 6.1 billion, some 31.9% of the overall inter Arab business. Kuwait's investments in Saudi Arabia and the UAE were estimated at US$ 4.3 billion and US$ 1.2 billion respectively.

The UAE ranked second in terms of inter-Arab investments with 26.3%, or US$ 5.1 billion, of total inter-Arab investments, followed by Bahrain with US$ 1.7 billion or 8.7%. Qatar invested US$ 1.2 billion or 6.5% and came in third position, with Jordan trailing with US$ 1.1 billion or 5.8% of total inter-Arab investments.

Saudi Arabia led the inflow of inter-Arab investments, reaching US$ 11.6 billion in 2009, some 60.4% of the total inflow, followed by the UAE with US$ 3.7 billion (19.0%), and Egypt with US$ 1.7 billion (8.9%). Total inter-Arab investments for countries with available data amounted to US$ 19.2 billion in 2009, down by 7.0% from US$ 20.7 billion in 2008. The proportion of investments at the inter-Arab level was estimated at 27.7% for the industrial sector and 36.7% in agriculture.

Inter-Arab Investments (US$ million)

Recipient country	2009	2008	Change 09/08
Saudi Arabia	11,623	12,758	-8.9%
UAE	3,652	3,560	2.6%
Egypt	1,712	2,422	-29.3%
Jordan	756	473	59.8%
Yemen	652	393	66.0%
Morocco	642	841	-23.7%
Tunisia	164	213	-23.2%
Libya	48	32	50.3%
Total	**19,248**	**20,692**	**-7.0%**

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

Standard & Poor's sees some difficulties facing investment firms in the Gulf

Some investment companies in the Gulf would likely find it difficult to pursue their operations without dramatic changes in the wake of the global financial downturn, Standard & Poor's (S&P) has said in a new report.

According to analysts at S&P, the main reasons behind this deterioration are the high maturity mismatches that Gulf investment companies generally carry in their funding profiles and the ensuing weakened liquidity, weak business profiles, high leverage, and high exposure to real estate for some of them. Investment companies in GCC countries, including those with banking licenses and private equity firms, navigated through testing times in 2009, some more successfully and some less.

S&P said a few defaulted on their financial obligations and their moves to raise capital met with "far higher obstacles than in the past". This has consequently called into question the sustainability of their business models, the report said.

S&P believes that the GCC countries would continue to be net exporters of capital in the medium term, thanks to high oil prices that prevailed over the past five years and that would likely remain high in the future, as per S&P expectations. A substantial portion of this oil money would likely continue to find its way to local, government-sponsored projects and to global investment banks offering solutions for wealth management while the remainder would likely still flow to smaller investment companies in the Gulf, as per S&P.

However, analysts at S&P indicated that in the short term, there are some major obstacles for Gulf investment companies to overcome on the potential road to recovery. These consist essentially in corrective measures that are necessary to enable these companies to enhance the maturity profiles of their funding bases and reduce their leverage, as a means to prepare for better days.

Credit Suisse views Gulf investors looking increasingly abroad

Gulf Arab investors will increasingly look for opportunities outside the region, with deals in emerging markets and real estate helping to diversify holdings, according to analysts at Credit Suisse. The statement indicated that after 2001, Middle East investors began looking at their home markets, including Saudi Arabia and the UAE, and as a result outbound investments went from about 65% to less than 40% today.

The statement also noted that investors in the region need to diversify and are also more interested now in some emerging markets of Asia and Latin America, where growth and wealth creation has been robust and investors want to participate in that shift. Credit Suisse noted that Gulf Arab countries pump more than 20% of the world's crude oil and a quadrupling of oil prices in the past eight years is helping boost wealth across the region.

The IIF forecasts Qatar's real GDP growth at 14% in 2010 and 10% in 2011

A recent report released by the IIF covering Qatar's economic performance indicated that the impact of the global recession and financial crisis on the economy was rather muted as performance was helped by a buoyant gas sector and a strong policy response by the authorities. Following a slowdown to 9% in 2009, the economy is set to grow by 14% this year before slowing slightly to 10% in 2011, as per the IIF.

The report indicated that a strong policy response by the authorities helped banks withstand most of the pressure created by the global crisis. Meanwhile, ongoing efforts to expand hydrocarbons production capacity and infrastructure development, and a strong rebound in local bank credit would continue to support domestic demand.

The IIF noted that real hydrocarbons growth of 22% this year reflects increased oil and condensates output, and the start-up of the remaining large liquefied natural gas (LNG) production facilities, following earlier delays. The hydrocarbons sector currently accounts for around half of real GDP and is set to rise to 55% by 2011 with the completion of a significant level of LNG production capacity and the associated condensate production.

Meanwhile, real non-hydrocarbons growth is expected to be 6%, a slower pace compared to 2009, partly for technical reasons related to the pace of project implementation, but also due to weakening demand for Qatar's hydrocarbons products. Nonetheless, the strengthening of bank credit growth from late 2009 onwards and recovery in infrastructure and real estate projects should aid non-hydrocarbons growth.

The report also indicated that consumer prices are expected to rise by an average of 1% in 2010, following a sharp period of deflation throughout most of 2009, which was preceded by disinflation from mid-2008. House and commercial rents, which account for nearly one-third of the consumer price index (CPI), had the largest influence on overall inflation in 2009. Rental rates fell nearly 10% compared to 2008 because of excess housing supply and a fall in demand, as some expatriate employees were laid off in response to the slowdown in 2009. This helped depress the CPI to –5% in annual terms in 2009.

Finally, with respect to public finance figures, the IIF indicated that the deficit on services, income and transfers would widen over the next two years, to around US$ 21 billion (16% of GDP) by end-2011. The deterioration reflects increased debt service costs caused by a rise in external debt to US$ 93 billion by end-2011 (72% of GDP).

The external debt profile largely reflects hydrocarbons investment requirements. Growth in debt is projected to slow through 2011 as the LNG mega projects are finally completed and due to the moratorium until 2014 on developing any new North Field projects. Moreover, the IIF does not expect any new sovereign bond issuances in the short term following the total of US$ 10 billion issued in 2009. In addition, US$ 1.5 billion in Q-Tel bonds in June, US$ 2.3 billion of QP and ExxonMobil bonds in July, and US$ 1.6 billion in Commercial Bank bonds in November were also successfully issued. Qatar's heavy borrowing is for investments in assets with high export earnings potential; therefore, the IIF projects the debt service burden would moderate as export revenues rise. Meanwhile, US$ 2.75 billion in local currency sovereign bonds were issued on June 1.

UAE ranks first in the MENA region in total insurance premiums

Leading global reinsurer Swiss Re lately issued its "World Insurance in 2009" annual report covering the insurance sector across 159 countries in the world, in which it ranked the UAE first in the Middle East and North Africa (MENA) region and 45th globally in terms of total insurance premiums in 2009.

Total insurance premiums in the UAE were at US$ 5,113 million, up by a yearly 2.8%. Subsequent to the UAE, Saudi Arabia came second in the region, as it came in the 48th place globally with US$ 3,896 million in total insurance premiums, followed by Morocco (53rd globally) with US$ 2,583 million in total premiums, and Egypt (57th globally) with US$ 1,565 million in total premiums.

In terms of total insurance premiums to GDP, also known as insurance penetration, Lebanon ranked first in the MENA region with a penetration rate of 3.1%, compared to 3.4% last year. Lebanon came in the 48th place globally in this category in 2009, maintaining the lead in the MENA region for the fifth year in a row. Morocco came in second in the region with an insurance penetration rate of 2.8% (50th worldwide), followed by the United Arab Emirates with 2.5% (55th worldwide), Jordan with 2.3% (56th worldwide) and Bahrain with 2.3% (58th globally). The MENA average insurance penetration ratio stood at 1.7%, but remained far from the world average of 7.0%, thus mirroring a strong potential for further expansion.

In terms of insurance density, defined as the total insurance premiums per capita, the UAE also ranked first in the MENA region with an insurance density of US$ 1,112, decreasing by a yearly 0.2%. In this category, the UAE ranked 31st worldwide. Regionally, Bahrain came in second with an insurance density of US$ 625 (36th worldwide), followed by Qatar with US$ 549 (38th worldwide), Lebanon with US$ 226 (51st worldwide) and Oman with US$ 220 (52nd worldwide). The MENA average insurance density stood at US$ 276 in 2009, up by a yearly 14.0%. However, this density remains far below the global density of US$ 595.

The MENA insurance industry reached US$ 18.5 billion in size, growing by 5.4% in nominal terms. The growth of the region's insurance market outpaced the decline in the world average growth (-3.7%).

In the MENA region, life premiums accounted for 17.8% of total premiums in 2009 with US$ 3,299 million, while the non-life business, or general insurance market, continued to represent the bulk of insurance activity in the region, with 82.2%, or US$ 15,225 million. Here, one should note that although the share of non-life premiums from total premiums in the MENA region remained more or less unchanged in 2009, non-life premiums grew by 6.4% year-on-year.

Growth in the region in 2009 was spurred by a slight growth in the life insurance segment, of 1.4%, and by the aforementioned expansion of the non-life insurance segment, with the latter having a more significant effect on total growth, as the non-life insurance segment accounts for a higher share of the total insurance sector. The yearly expansion of the non-life insurance segment in the MENA region compares to a slowdown in the world average growth of 2.6%. As to the growth in the region's life insurance market, it compares to a decline in the world average growth of 4.4%.

MENA Insurance Market Indicators (Year 2009)

Country	Total premiums (in US$ million)	Life premiums (in US$ million)	Non-life premiums (in US$ million)
UAE	5,113	732	4,381
Saudi Arabia	3,896	267	3,629
Morocco	2,583	825	1,758
Egypt	1,565	704	861
Lebanon	952	232	720
Algeria	797	63	734
Qatar	773	n.a.	773
Tunisia	758	100	658
Oman	627	102	525
Jordan	510	49	460
Bahrain	494	137	357
Kuwait	457	88	369
MENA	**18,525**	**3,299**	**15,225**
World	**4,066,095**	**2,331,566**	**1,734,529**

Sources: Swiss Re, Bank Audi's Research Department

The MENA insurance sector grew at a slower pace in 2009 compared to the previous year, as a result of the global crisis. The only countries in the MENA region that recorded growth in their life premiums were Egypt (10.3%), Tunisia (11.3%) and Saudi Arabia (69%), whose double-digit growth rate was boosted by strong demand for shariah-compliant insurance. Life premium growth in some countries was limited by the reduced demand for life products by the region's large expatriate population, according to Swiss Re. Looking ahead in the medium to long term, the report noted that shariah-compliant insurance and pension products are projected to drive future growth in the life insurance segment. As for the prospects for non-life insurance activity, Swiss Re indicated the improvements in macroeconomic conditions in the region, along with the recovery in external demand, is likely to support strong growth in the non-life market in 2010. Increased infrastructure spending in oil-exporting countries and growth in health business are projected to remain the main drivers of non-life activity.

Belgium's Besix wins US$ 750 million joint Qatari airport contract

Besix Group, the Belgian contractor that helped build the world's tallest tower in Dubai, won a US$ 750 million contract in a joint venture to build the third phase of the New Doha International Airport passenger terminal complex, according to newswires.

The project, to be built with Midmac Contracting, is set for completion by the fourth quarter of 2012, according to Orascom Construction Industries, which owns 50% of Besix Group.

The builders would be responsible for all structural, mechanical and electrical works as well as the design of the airport lounge and retail area, according to company statements. Besix's share of the contract is about 50% of its value, according to the same source.

Established in 1909, Besix Group is a large Belgian construction group, a conglomerate of companies active in the construction, engineering, environmental, real estate and concession sectors. Besix and its subsidiaries cover practically all fields of the construction industry and operate in Western Europe, Central and Eastern Europe, North and Central Africa, the Middle East, Central Asia and the Caribbean.

Shuaa Capital to sell 22% stake in Rotana Hotel Management

A private equity fund of Dubai's Shuaa Capital agreed to sell about 22% of its stake in Abu Dhabi-based Rotana Hotel Management to an existing Rotana shareholder, according to company statements.

The transaction is due to be completed within a few weeks, following approval from the Abu Dhabi Department of Economic Development, according to the same source.

Shuaa Partners Fund I, a debt and equity fund of private equity arm Shuaa Partners made the investment in Rotana in 2006.

The Shuaa Partners Fund I is a US$ 150 million private equity fund aimed at achieving capital appreciation through selected direct equity, debt and/or equity-related investments in the GCC and neighbouring countries, including pre-IPO situations.

Founded in 1979, Shuaa Capital provides investment banking services including corporate finance and investment advisory on mergers and acquisitions, initial public offering and underwriting, asset management services including fund, wealth and portfolio management, private equity investment, and brokerage services.

International Finance Corporation plans to invest in Egyptian Refining Company

The International Finance Corporation plans to invest US$ 120 million in Egyptian Refining Company, which would be used to build a US$ 3.7 billion hydrocracking and coking refinery.

The new refinery would allow Egypt to transform locally available fuel oil into lighter fuel products, such as ultra-low sulfur diesel, for the domestic market, according to IFC statements.

The Egyptian Refining Company, a platform company of private equity firm Citadel Capital, would also help upgrade an adjoining state-owned refinery to increase its energy efficiency and environmental performance, resulting in reduced sulfur dioxide emissions.

Established in 1956, IFC is a large multilateral source of loan and equity financing for private sector projects in the developing world. It is a member of the World Bank Group. The IFC invests in private sectors and government projects throughout the MENA region, provides loans, equity and quasi-equity financing, structured and trade finance, equity and debt funds, risk management services, advisory services to governments and private sectors in the areas of business.

Iraq concludes gas agreement with Shell and Mitsubishi

Iraq signed a multi-billion dollar deal with Royal Dutch Shell and Japan's Mitsubishi which involves the much needed electricity supply from natural gas. The two state-owned South Gas and Basra Gas would take a 51% stake in the contract while the foreign companies would take up the rest, according to official statements.

The joint deal with Shell and Mitsubishi would exploit gas in the Rumaila, Zubair, West Qurna and Majnoon fields near Basra. Existing power plants in Iraq have proved incapable of generating sufficient electricity to meet peak summer demand.

Royal Dutch Shell was founded in 1991 and specializes in the exploration and production of oil and gas, refining, petrochemicals production, marketing of lubricants and other oil products, and supply of marine and aviation fuel.

EQUITY MARKETS

Regional equity markets undermined by global pressures

The decline in global equity markets on the back of a sharp drop in US consumer confidence and lower than expected Chinese economic data, in addition to investors' cautious approach ahead of second quarter earnings, all weighed on regional equity markets during this week, with the Morgan Stanley Capital International Arabian Market Index posting a 4.2% decline in prices week-on-week.

The UAE equity markets were heavily affected by the regional downward trend, registering a 5.6% decline week-on-week. In Abu Dhabi, Aabar Investments went through a steep decline in share price of 15.3% week-on-week to close at AED 1.44, as some minority investors sold their positions after the company's Board of Directors approved delisting of the shares and conversion of the firm to a private joint stock.

As to the real estate sector, Abu Dhabi-listed Aldar's share price tumbled by 12.7% week-on-week to close at AED 2.72. EFG-Hermes expects the company's second quarter 2010 net profit to fall by 58.6% relative to the corresponding quarter of the previous year. In Dubai, Arabtec's share price fell by 9.1% to reach AED 1.7. EFG-Hermes expects the firm's second quarter 2010 net profit to drop by 26% relative to the corresponding period of the previous year.

At the level of the banking stocks, Dubai-listed Emirates NBD's share price plunged by 6.4% to AED 2.48. Abu-Dhabi listed First Gulf Bank's share price retreated by 1.3% to AED 14.9. It is worth mentioning that Moody's maintained its negative outlook for the UAE banking sector. In addition, it stated that UAE banks may need to provision 11-21% of their income to cover losses from the Dubai World restructuring which would wipe out 6-12% of the bank's regulatory capital, assuming a 10-20% haircut.

In Saudi Arabia, the Tadawul saw a 4.5% decline in prices week-on-week, mainly undermined by global pressures and the petrochemical industry that dragged down the Saudi market on the back of an 8% drop in crude oil prices. Saudi Basic Industries Corporation (SABIC) posted a 6.0% fall in its share price to close at SR 85.75.

As to real estate sector, Taiba Holding Company's share price decreased by 3.3% to hit SR 16.00. The company announced that it will suspend the advance payment of dividends on a quarterly basis because its cash flow was negatively affected by delays in disbursement of financial compensation pledged by the Saudi Finance Ministry. Dar Al Arkan Real Estate Development Company, Saudi Arabia's largest property developer, saw a 14.5% drop in its share price to close at SR 11.80. The company announced that its shareholders have approved a board's proposal for a cash dividend payout of SR 1.08 billion (US$ 288.1 million) at the rate of SR 1 a share. Mobile Telecommunications Company Saudi Arabia, known as Zain KSA, posted a 5.6% fall in its share price to reach SR 8.45 after announcing that it is considering a capital reduction to cover some or all of its accumulated losses which had reached US$ 1.6 billion by end-March 2010.

Outside the Gulf region, the Egyptian exchange saw a 4.5% decline in prices week-on-week, as the market came under pressure from the negative performance of foreign markets and local institutions selling to balance their books for the end of the financial year. Orascom Telecom Holding fell by 6.1% this week. Orascom Telecom Holding's Zimbabwean unit, Telecel, is considering issuing new shares and listing on the local stock exchange to reduce foreign ownership.

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	139.3	-0.4%	-3.3%	10.0	-19.7%	1.6	11,746.3	4.4%	9.3	1.28
Jordan	132.8	-1.0%	-11.4%	176.9	15.3%	120.2	29,245.8	31.5%	18.3	1.54
Egypt	745.2	-4.5%	-5.1%	742.5	17.3%	408.5	69,479.5	55.6%	10.4	1.57
Saudi Arabia	388.3	-4.5%	-0.3%	3,889.5	-20.5%	666.8	319,556.7	63.3%	14.9	1.90
Qatar	612.6	-2.7%	0.3%	244.8	1.8%	26.4	99,559.1	12.8%	10.0	1.95
UAE	190.6	-5.6%	-16.9%	405.5	-25.2%	1,197.1	123,127.4	17.1%	10.2	0.97
Oman	836.5	-1.2%	-0.1%	56.5	-10.9%	56.3	16,735.2	17.6%	11.0	1.69
Bahrain	256.9	-5.7%	-22.6%	6.3	10.4%	10.0	16,601.9	2.0%	10.6	1.01
Kuwait	545.0	-4.5%	-1.7%	355.8	-21.0%	727.4	93,289.9	19.8%	12.8	1.28
Morocco	420.7	-2.0%	0.9%	137.1	-4.5%	3.1	63,129.6	11.3%	15.0	3.19
Tunisia	1,166.7	2.1%	-0.6%	-	-	8.0	9,283.6	-	14.4	1.79
Arabian Markets	**459.9**	**-4.2%**	**-2.2%**	**6,024.8**	**-15.6%**	**3,217.5**	**842,471.5**	**37.2%**	**12.5**	**1.58**

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

Nakheel favorable news already discounted by regional fixed income markets

The favorable news regarding Dubai World debt restructuring plan during this week have had no spillovers on regional fixed income markets, as they were already discounted by market players. The Audi compiled weighted average bond yield rose by eight basis points week-on-week. In parallel, the bond spread expanded by 17 basis points this week as the drop in the US consumer confidence and lower than expected Chinese economic data and ECB's refusal to extend liquidity measure to banks, sparked demand for safe-haven debt instruments. This reduced the yield on five-year US Treasuries by nine basis points week-on-week.

Nakheel PJC, a developer and unit of state-controlled Dubai World, started this week making 40% cash payments to trade creditors with the remaining 60% paid through a publicly tradable Islamic bond, paying 10% return annually, in the next few months. On the back of this news, Nakheel 2011 saw some demand and traded upward.

Kipco-Kuwait Projects Company announced this week that it will start meeting fixed income investors. The meetings would be arranged by BNP Paribas, Citigroup Inc and HSBC Holdings Plc. The proceeds of any deal, likely a 10-year US$ benchmark bond, would be used for general corporate purposes and to extend maturities of debt, as per company officials.

Islamic Development Bank, rated Aaa by Moody's, AAA by S&P and Fitch, announced this week that it would be conducting a series of investor meetings as a part of a non-deal roadshow exercise in Asia, starting 7th of July 2010. CIMB, Citi, HSBC & Standard Chartered would arrange the meetings. It is worth noting that the Jeddah-based bank announced two weeks ago plans to raise US$ 1 billion from the sale of Islamic bonds to finance projects in member countries.

In addition, Dar Al Arkan Real Estate Development Co., Saudi Arabia's largest property company by market value, swapped this week half of its US$ 450 million fixed-rate Islamic bond as it seeks to cut borrowing costs. The company swapped US$ 225 million into floating-rate notes, reducing the annual coupon profit rate it pays on the five-year sukuk to 7.95% plus the three-month Saudi interbank offered rate standing at 0.72575%, according to newswires. The notes paid a coupon of 10.75% when they were sold in February. This transaction comes in line with the company's strategy to reduce its cost of financing by benefiting from the current available lower variable rates, as per the company's officials.

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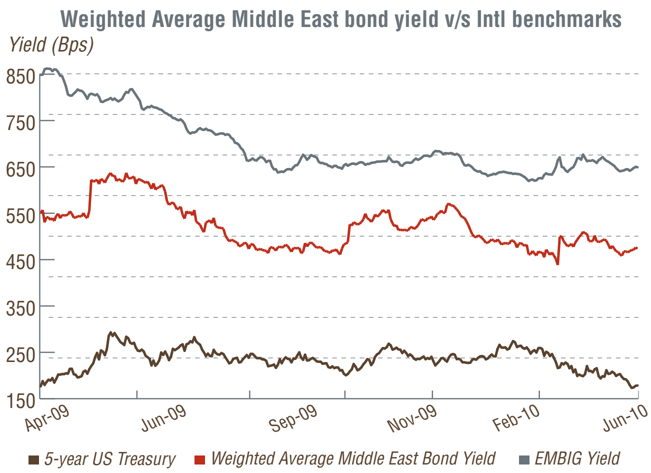
Elsewhere in the GCC region, Qatar issued QR 2 billion (US$ 549.5 million) in domestic bonds maturing on June 30, 2015 and transferable outside of Qatar, with a 5% coupon. The new issue drew a very hefty demand, according to Qatar Central Bank, and rolled over a prior issue of the same amount. The world's largest LNG exporter has embarked recently on issues of domestic debt, mainly aiming to launch a local debt market and provide a new vehicle to pool excess liquidity in the banking sector.

Outside the GCC region, Egyptian car purchase financer Contact would sell on July 7, 2010 LE 470 million (US$ 83 million) in bonds securitizing expected car payments. The issue includes a 13-month LE 178.6 million note with a yield of 9.375%, 37-month LE 216.2 million note with a yield of 10.25%, and 60-month note with a yield 10.75%. The subscription will begin on July 11, 2010 and continue for 60 days or until it is covered. Some 90% of the issue would be sold in a private placement and the other 10% to the public through bank branches. Banque Misr, Arab African International Bank and Ahli United Bank Egypt (AUBK.CA) have agreed to co-underwrite the bond issue.



Sources: Thomson Reuters, Bank Audi's Research Department

Middle East 5Y CDS Spreads v/s Intl Benchmarks

in basis points	2-July 2010	25-June 2010	31-Dec 2009	Week-on -week	Year-to -date
Abu Dhabi	113	110	151	3	-38
Dubai	480	465	445	15	35
Qatar	90	90	105	0	-15
Saudi Arabia	70	70	85	0	-15
Bahrain	160	160	210	0	-50
Oman	181	181	127	0	54
Egypt	215	215	260	0	-45
Lebanon	300	300	281	0	19
Emerging Markets	289	278	272	12	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/Positive
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

	2-Jul-10	25-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	0.53%	0.53%	0.25%	0.00%	0.28%
US Discount Rate	0.75%	0.75%	0.50%	0.00%	0.25%
US 10-year bond	2.98%	3.12%	3.84%	-0.13%	-0.86%

FX RATES (per US$)

	2-Jul-10	25-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)	47.05	47.05	45.75	0.0%	2.8%
Jordanian Dinar (JOD)	0.71	0.71	0.71	0.1%	0.1%
Egyptian Pound (EGP)	5.70	5.68	5.49	0.2%	3.8%
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	0.1%	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%	-0.1%
Kuwaiti Dinar (KWD)	0.29	0.29	0.29	-0.2%	1.3%
Bahraini Dinar (BHD)	0.38	0.38	0.38	0.0%	0.0%
Omani Riyal (OMR)	0.38	0.38	0.38	-0.1%	0.0%
Yemeni Riyal (YER)	225.00	224.50	203.00	0.2%	10.8%
NORTH AFRICA					
Algerian Dinar (DZD)	73.56	72.89	70.42	0.9%	4.5%
Moroccan Dirham (MAD)	8.76	8.91	7.88	-1.7%	11.2%
Tunisian Dinar (TND)	1.49	1.50	1.32	-0.8%	12.7%
Libyan Dinar (LYD)	1.30	1.31	1.23	-0.8%	5.9%
Sudanese Pound (SDG)	2.35	2.35	2.24	0.3%	5.1%

COMMODITIES (in US$)

	2-Jul-10	25-Jun-10	31-Dec-09	Weekly Change	Year-to-date
Crude oil barrel (Brent)	71.9	77.8	77.7	-7.7%	-7.5%
Gold ounce	1,210.6	1,254.5	1,095.7	-3.5%	10.5%
Silver ounce	17.8	19.0	16.8	-6.4%	5.9%
Platinum ounce	1,499.0	1,568.0	1,467.0	-4.4%	2.2%

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