The Lebanon Weekly Monitor

Week 19
May 5 - May 10 2008

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The Lebanese banking sector has witnessed, once again, a good quarter of flourishing activity. According to figures released by the Central Bank, the banks' total assets moved from LP 123,999 billion at year-end 2007 to LP 128,343 billion at end-March 2008, i.e. exhibiting a healthy growth of 3.5%.

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Freedom House's annual *Freedom of the Press* publication for 2008, which tracks trends in media freedom in 195 countries and territories, continued to rate Lebanon as 'partly free' for the second year in a row after upgrading its status from 'not free' in 2006.

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p.5 ▶ Bank of Beirut's net profits up by 50.5% to US$ 13.5 million in the first quarter of 2008

Bank of Beirut announced consolidated net profits of US$ 13.5 million in the first quarter of 2008, up by 50.5% from US$ 9.0 million in the first quarter of 2007.

▶MARKETS IN BRIEF

p.6 ▶ Lebanese capital markets continue to operate on firm ground despite the deterioration of local security conditions

Lebanese capital markets continued to operate on solid territory despite the relapse of local security conditions this week. On the foreign exchange market, the offer trend of the US Dollar was halted this week and a modest demand for the green currency started to float on the surface. Meanwhile, the Central Bank announced that it will continue to provide its regular services through its branches spread over the country. It is worth noting that the Central Bank currently enjoys a high level of foreign assets, as the latter reached a record high level of US$ 13.94 billion at end-April 2008, and covered 79.7% of LP money supply. In parallel, the local currency liquidity remained abundant on the money market. As to the equity market, trading was restricted to three working days this week, and the price index declined slightly by 2.3% week-on-week to close at 163.44. The total trading value amounted to US$ 12 million during this three-day week versus US$ 33 million during the previous four-day week. The trading index dropped by 64% to reach 207.7.

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ECONOMY

Consolidated assets of commercial banks up by 3.5% over the first quarter of 2008

The Lebanese banking sector has witnessed, once again, a good quarter of flourishing activity. According to figures released by the Central Bank of Lebanon, the banks' total assets moved from LP 123,999 billion at year-end 2007 to LP 128,343 billion at end-March 2008, i.e. exhibiting a healthy growth of 3.5%. The growth in assets of LP 4,344 billion between the two dates is equivalent to 3.3 times the growth reported over the corresponding period of last year and 3.8 times the average growth reported over the similar period of the past five years.

The growth in assets was triggered by customer deposits which grew by LP 2,713 billion in the first quarter of 2008, against only LP 584 billion over the first quarter of 2007 and an average of LP 399 billion over the past five years. The most outstanding growth performance pertains to total loans which grew by LP 3,070 billion in the first quarter of 2008, the equivalent of 10% in percentage terms, by far the most significant quarterly growth reported so far. As such, total loans moved from LP 30,790.6 billion at end-December 2007 to reach LP 33,860.4 billion at end-March 2008. The lending growth is actually attributed to increased bookings within Lebanon for regional corporates or for domestic corporates with overseas operations.

The analysis of resources by type suggests that resident deposits are those that reported the growth in volume in the first quarter of 2008, while non-resident deposits have reported a net retreat. The former rose from LP 86,981 billion to LP 89,810 billion, i.e a growth of 3.2% while the latter reported a decline of 0.8%, moving from LP 14,454 billion to LP 14,338 billion. As such, the share of non-resident deposits out of total deposits has slightly decreased from 14.2% at end-December 2007 to 13.8% at end-March 2008.

The analysis of resources by currency suggests that the first quarter of the year was more or less evenly spread over Lebanese Pounds and foreign currencies. The dollarization ratio of deposits actually lost 0.6% moving from 77.3% at end-December 2007 to 76.7% at end-March 2008. The foreign currency deposits had reported a growth of US$ 949 million while the LP deposits had reported a growth of LP 1,282 billion.

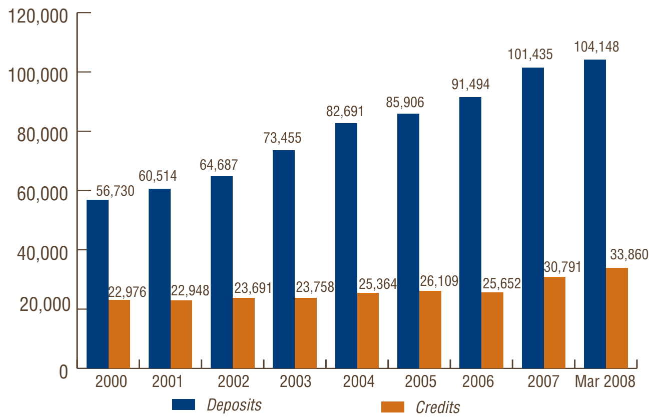
As for the growth in lending, it gained pace significantly, thus naturally leading to a decline in liquidity. Overall liquidity as a percentage of customer deposits moved from 81.0% at end-2007 to 78.2% at end-March 2008. The most important measure remains that of primary liquidity in foreign currency, i.e excluding sovereign bonds. The latter dropped from 50.0% at end-December 2007 to 47.6% at end-March 2008, as a result of a decline in placements in foreign banks which dropped from 28.0% to 24.6%.

It is worth mentioning that the additional lending undertaken by banks is partly offsetting the adverse impact of the decline in foreign rates on banks' liquidity yield. With the Libor having lost 181 basis points since the beginning of the year, banks have now again negative carry on their abundant primary liquidity in foreign currency. This might have an adverse impact on profitability pushing banks to decrease their cost of funding gradually, though not at the same pace of the decrease in Libor.

An in-depth look at lending activity locally and abroad indicates that the rise in loans to the non-resident private sector exceeded the increase in loans to the resident private sector, reiterating banks' strategy to secure a market presence abroad and to reduce their reliance on the domestic market. Indeed, the increase in loans to the non-resident private sector reached 36.7%, while the latter was at significantly lower 5.9%. However, in volume, the rise in non-resident claims was at LP 1,478.1 billion, lower than the LP 1,591.8 billion increase in loans to the resident private sector, due to the fact that share of residents' loans remains much larger than that of non-residents. By the end of March 2008, the share of loans to non-residents reached 16.3% of total loans, up from 13.1% at end-2007.

Finally, distribution of loans by currency indicates that foreign currency loans went up by 11.0% in the first quarter of 2008 to reach US$ 19,578.6 million, while Lebanese Pound-denominated loans went up by 3.6% to become LP 4,345.7 billion. This indicates that the dollarization rate of loans increased slightly from 86.4% at end-2007 to 87.2% at end-March 2008. Again, the greater increase in foreign currency loans is in correlation with the regional lending strategy, as regional corporates naturally prefer foreign currency loans.

Banks' Deposits and Credits in LP billion



Source: Central Bank of Lebanon

Balance of payments records a deficit of US$ 213.9 million in the first quarter of 2008

Figures released by the Central Bank of Lebanon reveal that Lebanon's cumulative balance of payments, which mirrors net foreign assets in the country, registered a deficit of US$ 213.9 million in the first quarter of 2008.

This cumulative deficit is mostly the result of a monthly deficit of US$ 497.4 million recorded in the month of March 2008, which reversed the cumulative surplus that prevailed over the first two months of the year. In fact, the first quarter of 2008 witnessed continuous fluctuations in the balance of payments account. While the year began with a deficit in January 2008, a monthly surplus in February 2008 more than offset the aforesaid deficit, as it was greater in volume, thereby leading to the cumulative surplus of the first two months of the year, only for the latter to fall back into a deficit, due to a monthly deficit of US$ 497.4 million in March 2008.

The deficit of the first quarter of 2008 marks a regression from the smaller deficit of US$ 100.4 million in the same period of 2007. In fact, this year's first quarter deficit is more than two times that of the first quarter of 2007. This deterioration in the balance of payments account can be attributed to the expanding trade deficit, whose effect on the balance of payments account was greater than the yearly rise in capital inflows during the first quarter of 2008. When comparing March 2008 to the same month of the previous year, the former saw a significant fallback from a monthly surplus of US$ 62.5 million in the third month of 2007.

The March 2008 deficit was the result of a significant drop of US$ 463.2 million in net foreign assets of banks and financial institutions, along with a smaller decrease of US$ US$ 34.2 million in those of the Central Bank of Lebanon. As for the cumulative deficit, it is the combined outcome of a drop of US$ 1,116.3 million in net foreign assets of banks and financial institutions, which exceeded the rise of US$ 902.4 million in those of the Central Bank.

Consumer prices up by a yearly 3.2% in the first quarter of 2008

The first quarter of 2008 saw a somewhat significant rise in inflation in Lebanon relative to end-2006, as figures released by the Consultation and Research Institute (CRI) indicate that the Consumer Price Index (CPI) went up by an important 3.19% in March 2008 relative to December 2007. This increase comes despite a small monthly decrease of 0.14% during March 2008 for the second month in a row, and thus can be mostly attributed to significant inflation in January 2008. On a yearly basis, the CPI increased by 10.79% between March 2008 and March 2007. As for the yearly average inflation in the first quarter of 2008, i.e. the change in the average index in the first quarter of 2008 relative to the first quarter of 2007, it was at a major 8.87%.

The increase in the CPI witnessed in the first quarter of 2008 was mostly due to a leap of 10.62% in prices of personal care and other products, a surge of 7.52% in prices of food and a rise of 3.64% in housing prices. Also, prices of durable consumer goods, leisure prices, healthcare prices, and prices of transport and telecommunication went up by 0.68%, 0.35%, 0.12%, and 0.09%, respectively.

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The rise in the sub-index for personal care and other products was mostly due to the rise in the prices of two items, the first being jewellery, mostly gold, which went up by 29.85%, and the second is the personal care, which includes hair salons and perfumes with an increase of 6.41%. Next came the increase in the index for food and beverages, which has had the most significant effect on the rise of the CPI, due to its high weight. Food prices went up by 7.89%, while prices of soft beverages went up by 5.84%, and those of alcoholic beverages rose by 3.34%. As for prices of cigarettes and tobacco, they went up by 1.88%.

The increase in housing prices during the first quarter of 2008 was caused solely by a 5.48% rise in fuel and electricity costs. As for the rise in the sub-index for durable consumer goods, it was affected by several price fluctuations, such as an increase of 3.59% in prices of house and garden tools. The increase in the sub-index for leisure was due to a 1.72% rise in prices of books, dailies, and film development.

The trivial increase in prices of healthcare was mostly caused by the increase in prices of medications and other health products, which reached 1.87%. Also, a petty rise of 0.10% in transport prices lead to the small increase in prices of transport and telecommunications.

In parallel, prices of clothes and shoes were the only components of the index that saw a decline, which was at 6.49% in the first quarter of 2008, due to a 7.52% decline in prices of shoes and shoe repairs, as well as a 6.03% drop in prices of clothes and sewing materials.

The CPI uses 2004 as the base year and is composed of 215 expenditures items with collected prices covering about 900 products. Food and beverages have a weight of 35.40%, followed by transport and telecommunication with 14.39%, education with 12.45%, health care with 9.82%, durable consumer goods with 8.18%, clothes and shoes with 6.55%, housing with 6.49%, personal care and other products with 4.02% and leisure with 2.70%.

Lebanon ranks 117th globally and 3rd in the MENA region in terms of press freedom in 2008

Freedom House's annual Freedom of the Press publication for 2008, which tracks trends in media freedom in 195 countries and territories, continued to rate Lebanon as ‘partly free’ for the second year in a row after upgrading its status from ‘not free’ in 2006. The survey also ranked Lebanon in the 115th position globally, exhibiting a yearly improvement from its 126th spot in the 2007 survey. As for its placement within the Middle East and North Africa (MENA) countries, Lebanon came in 3rd out of 19 countries, maintaining the same spot since 2007, and improving by one notch from the 2006 survey.

Lebanon and Kuwait were the only two MENA countries considered ‘partly free’, while one country was considered “free”, and 16 MENA countries were considered ‘not free’. Globally, 72 countries were rated ‘free’, 59 were rated ‘partly free’, while 64 were rated ‘not free’. This survey indicated that global press freedom underwent a clear decline, with journalists struggling to work in increasingly hostile environments in almost every region in the world. However, there was some improvement in the MENA region, which has the least amount of press freedom. The survey attributes the gains in this region to a growing number of journalists who were willing to challenge government restraints, a pushback trend seen in other regions.

The press freedom index developed by Freedom House evaluated individual countries based on three variables, the ‘Legal Environment’, ‘Political Influences’, and ‘Economic Pressures’. Countries that attained an overall score between 0-30 have free press; those that scored between 31-60 have partly free press, while those that scored in the range of 61-100 representing not free press. This means that the higher the country’s score on each category, and thereby its overall score, the more there is press restrictions in the country.

Lebanon scored 18 in the ‘Legal Environment’ category, improving its score from 19 in the previous survey. However, its score in the ‘Economic Pressures’ category, saw a slight drawback from 15 in 2007 to 16 in 2008, while its score in the ‘Political Influences’ category improved from 25 to 21. Lebanon’s total score in the 2008 survey was at 55, displaying a continuous progression from 59 in the 2007 survey, 60 in the in 2006 survey and 66 in 2005 survey.

Regionally, Lebanon ranked directly behind Kuwait and Israel, whereas it came in directly ahead of Egypt and Algeria. Globally, Lebanon came in behind Kuwait, and Indonesia, scored equally as Malawi, and came in ahead of Haiti and Mauritania.

Finally, the study noted that while the media have more freedom in Lebanon than in other countries in the region, they still face political and judicial obstacles. The constitution provides for freedom of the press, and although the media does not face direct interference from the government, political developments over the last couple of years have resulted in increased security risks and self-censorship among journalists. Security services are authorized to censor all foreign magazines, books, and films before they are distributed, as well as political and religious material deemed a threat to the national security.

IMF evaluates Lebanon’s performance under the EPCA program in 2007

In its latest report on Lebanon’s performance under the program supported by Emergency Post-Conflict Assistance (EPCA) issued last week, the International Monetary Fund (IMF) noted that the primary balance and net debt targets for end-December 2007 were met with significant margins, as the government achieved a primary surplus excluding grants of 0.5% of GDP, compared to a target of –3.7 %. This substantial over-performance reflected strong overall revenues, which more than counterbalanced the loss from gasoline excises that were reduced to zero, and expenditures savings, deriving mainly from a lower pace of foreign-financed spending, and lower than expected transfers to municipalities and the electricity company (EDL).

The government’s net debt declined from 173% to 165% of GDP in 2007, in part because the primary surplus rose above its debt-stabilizing level. However, most of the decline resulted from the transfer of unrealized gold valuation gains from the Central Bank to the government, which weakened the Central Bank’s balance sheet. Moreover, the program targets on international reserves and government net borrowing from the Central Bank were also met comfortably, with gross international reserves of the Central Bank rising to US$ 11.5 billion.

As for the outlook in 2008, the government has limited scope for fiscal policy actions, which include tax increases, in the absence of an active parliament. Still, revenues should at least grow broadly in line with nominal GDP, taking into account one-off effects in 2007. Also, the government plans to maintain strict expenditure control, while the increase in transfers to EDL should be limited by the planned partial switch in electricity production from gas-oil to natural gas. As a result, the authorities should be able to keep the primary balance excluding grants relative to GDP close to or even slightly higher than its 2007 level. This would keep the public debt-to-GDP ratio on a gradual downward trend.

The government also faces substantial gross financing needs in 2008, including over US$ 4.5 billion in foreign currency. Expected donor support of US$ 800 million is crucial to cover some of these needs. If the authorities’ financing strategy succeeds and donor support is in line with projections, gross international reserves should increase by more than US$ 1 billion during 2008. This outlook, however, is subject to significant risks, such as Lebanon’s vulnerability to possible changes in regional liquidity and demand, a worsening of the Lebanese political and security situation, and increased inflation.

CORPORATE NEWS

Bank of Beirut's net profits up by 50.5% to US$ 13.5 million in the first quarter of 2008

Bank of Beirut announced consolidated net profits of US$ 13.5 million in the first quarter of 2008, up by 50.5% from US$ 9.0 million in the first quarter of 2007. Net interest income decreased by 1.9% to US$ 22.1 million, while net commission earnings rose by 63.5% to US$ 9.1 million. Net financial revenues reached US$ 34.6 million, up by 15.0% from US$ 30.1 million in the first quarter of 2007.

Staff and operating charges increased by 17.9% to US$ 15.5 million, due to a 12.0% rise in staff expenses and a 25.9% growth in general operating expenses.

Total assets reached US$ 5.4 billion at end-March 2008, up by 17.2% from US$ 4.6 billion at end-March 2007, while loans to customers increased by 47.4% to reach US$ 1.2 billion.

Customer deposits amounted to US$ 3.8 billion at end-March 2008, up by 18.3% from US$ 3.2 billion at end-March 2007. The ratio of total loans to deposits stood at 31.6%, compared to 25.4% a year earlier. Foreign currency deposits accounted for 77.9% of total deposits, compared to 76.8% at end-March 2007. Shareholders' equity amounted to US$ 419.7 million, up by 37.8% from US$ 304.6 million a year earlier.

BLC's net profits up by 50.9% to US$ 4.6 million in the first quarter of 2008

BLC Bank announced consolidated net profits of US$ 4.6 million in the first quarter of 2008, up by 50.9% from US$ 3.0 million in the first quarter of 2007. Net interest income amounted to US$ 10.7 million, while net commission earnings reached US$ 1.1 million over the same period. Staff and general operating charges totaled US$ 6.7 million, down by 27.1% from US$ 9.2 million in the first quarter of 2007.

Total assets decreased by 23.4%, from US$ 2.3 billion at end-March 2007 to US$ 1.8 billion at end-March 2008. Customer deposits decreased by 21.9% to reach US$ 1.5 billion at end-March 2008. Shareholders' equity amounted to US$ 132.6 million, down by 8.5% from US$ 144.8 million a year earlier.

Solidere International to build AED 220 billion Al Zorah coastal city in the UAE

Dubai-based Solidere International (SI), the international arm of Solidere, the company in charge of the development and reconstruction of the Beirut Central District, unveiled plans to implement an AED 220 billion (around US$ 60 billion) coastal city in Ajman, under the name of Al Zorah.

The Al Zorah master plan, to be implemented by the Al Zorah Development Company, a joint venture between the government of Ajman and Solidere International, aims at developing the Emirate of Ajman's coastline into a sustainable residential, business and leisure community, according to a Solidere statement.

Al Zorah would span across an area of 12 square kilometers, with a built-up area of 22 million square meters and would have a total of 16 kilometers of white beaches and waterside walks. It would contain varied residences, offices, retail, schools, hospitals and leisure facilities including marinas and a number of five-star resort hotels. It would also offer cultural, entertainment and leisure facilities.

Four banks sign US$ 57 million credit agreements with ATFP

Four banks, namely Crédit Libanais, Fransabank, Banque Libano-Française, and Bankmed, signed credit line agreements with the Arab Trade Financing Program (ATFP) for a total combined value of US$ 57 million. These credit deals are part of the US$ 214 pledge from the ATFP under the Paris III conference, and aim at financing Lebanon's foreign trade, according to Zawya Investor.

Established in 1989 with a paid up capital of US$ 500 million, the Abu-Dhabi based ATFP is a specialized financial institution with a mission to contribute to the development of Arab trade and to the increase of the competitive capabilities of the Arab producers and exporters. The Program provides refinancing facilities at convenient costs and suitable tenors for eligible trade transactions through its national agencies located in the Arab region. The Program's capital is contributed by 44 shareholders including Arab financial organizations, regional monetary funds, central banks as well as public and private banking institutions.

Aref Investment Group to invest US$ 1 billion in Lebanon

Aref Investment Group, a financial management company based in Kuwait, unveiled plans to invest US$ 1 billion in projects targeting the health and education sectors in Lebanon.

Established in 1975, Aref Investment Group, formerly known as the Arab European Financial Management Company, is majority-owned by Kuwait Finance House. The group invests in the financial, real estate, healthcare, education, media and information technology sectors in accordance with Islamic law.

CAPITAL MARKETS

Money Market: Overnight rate unscathed by recent developments

The overnight rate was unscathed by the relapse of local security conditions this week, still standing at its low official level of 3.5%. As a matter of fact, the Lebanese Pound remained in great abundance with only a tiny demand for foreign currencies taking place on the foreign exchange market.

On the other hand, the monetary aggregates for the week ending April 24 showed an increase in local currency deposits of LP 235 billion and a decline in foreign currency deposits of US$ 74 million. These weekly variations compare to an average increase of LP 108 billion for LP deposits since the beginning of the year 2008, and an average rise of US$ 80 million in foreign currency deposits. In addition, total money supply in its large sense (M4) expanded by LP 105 billion, versus an average weekly increase of LP 228 billion since the beginning of the year 2008.

Interest rates	09/05/08	02/05/08	28/12/07	
Overnight rate	3.50%	3.50%	3.50%	⇔
7 days rate	3.63%	3.63%	3.63%	⇔
1 month rate	4.17%	4.17%	4.17%	⇔
45-day CDs	4.40%	4.40%	4.40%	⇔
60-day CDs	4.89%	4.89%	4.89%	⇔

Treasury Bills Market: Three-year category captures the bulk of subscriptions during the first four months of 2008

The Central Bank released this week the latest results of the long-term Treasury bills auction, which showed that total subscriptions for value date May 08, 2008 amounted to LP 339 billion, and were distributed as follows: LP 9 billion in the one-year category, LP 4 billion in the two-year category and LP 326 billion in the three-year category. These compare to maturities of LP 17 billion, resulting in a nominal surplus of LP 322 billion. The average yields on the one-year, two-year and three-year categories remained unchanged since April 2005, standing at 7.75%, 8.50% and 9.32% respectively.

Total subscriptions amounted to LP 5,864 billion during the first four months of 2008, the highest level as compared to the corresponding periods over the past three years, which mirrors the great abundance of local currency liquidity at hand. It is worth noting that the three-year category captured 84% of total subscriptions during the first four months of 2008, versus 28% of the total during the corresponding period of 2007, 50% of the total in 2006 and 42% of the total in 2005. In fact, the market players opted to channel their local currency liquidity towards the high-yielding three-year category during the first four months of 2008, as the stable monetary situation since the beginning of the year 2008 encouraged them to place their funds in lucrative long-term investments.

T-Bills Yields	09/05/08	02/05/08	28/12/07	
3-month	5.22%	5.22%	5.22%	⇔
6-month	7.24%	7.24%	7.24%	⇔
1-year	7.75%	7.75%	7.75%	⇔
2-year	8.50%	8.50%	8.50%	⇔
3-year	9.32%	9.32%	9.32%	⇔
Nom. Subs. (LP billion)	339	20	288	↑
Short-term (3&6 mths)	0	20	288	↓
Medium-term (1&2 yrs)	13	0	0	↑
Long-term (3 yrs)	326	0	0	↑
Maturities	17	80	326	↓
Nom. Surplus/Deficit	322	-60	-38	↑

Foreign Exchange Market: BDL's foreign assets hit a record high level of almost US$ 14 billion

The US Dollar continued to be on offer on Monday and Tuesday, and the Central Bank intervened as a buyer of the green currency surpluses at a rate of LP 1,512, following the recent cut of its FX intervention rate. However, the offer of the green currency stopped during the next couple of days under the impact of the relapse of local security conditions, and a modest demand for foreign currencies appeared.

On the other hand, the Central Bank's latest bi-monthly balance sheet ending April 30, showed an increase in foreign assets of US$ 395 million to reach a record high level of US$ 13.94 billion. Accordingly, the BDL's foreign assets covered 79.7% of LP money supply at end-April, i.e. if LP depositors wanted to convert around 80% of the deposits to the US Dollar, the Central Bank will be able to meet the demand by drawing on its high level of foreign assets.

Exchange rate	09/05/08	02/05/08	28/12/07	
LP/US$	1,507.5	1,507.5	1,507.5	⇔
LP/£	2,954.85	2,991.18	3,011.83	↑
LP/¥	14.46	14.39	13.31	↓
LP/SF	1,428.77	1,438.04	1,330.77	↑
LP/Can$	1,491.98	1,481.28	1,538.89	↓
LP/Euro	2,314.62	2,333.91	2,212.56	↑

Stock Market: Lower trading and price indices

Activity on the Beirut Stock Exchange was limited to three working days this week due to the deterioration of local security conditions. The total trading value amounted to US$ 12 million versus US$ 33 million during the previous four-day week. The average daily trading value fell from US$ 11 million last week to US$ 4 million this week, which led to a drop in the trading index of 63.7%. The price index retreated by 2.3% week-on-week to reach 163.44.

In details, Solidere shares accounted for 62% of the total trading value this week. The Solidere "A" share price decreased by 3.7% to US$ 24.08, and the Solidere "B" share price slipped by 5.1% to US$ 23.93.

On the other hand, the banking shares captured 38% of activity this week. Bank Audi's GDRs price moved down by 3.4% to close at US$ 95.15, while Bank Audi's "listed shares" price rose by 2.1% to US$ 92. BLOM's GDRs price increased by 1% to US$ 97.95. Byblos Bank's "listed shares" price regressed by 2.4% to US$ 2.40, and Byblos Bank's "priority shares" price fell by 8.1% to US$ 2.37. Bank of Beirut's "listed shares" price declined by 1.4% to US$ 14.

As to the industrial shares, Holcim's share price dropped by 6% week-on-week to reach US$ 19.74. At the level of the investment funds, the Beirut Lira Fund's share price increased slightly by 0.2% to LP 104,000. The Beirut Preferred Fund stood at US$ 101 and the Beirut Global Income remained unchanged at US$ 103.5.

On the other hand, it is worth mentioning that Solidere's GDRs, Bank Audi's GDRs and BLOM's GDRs that are listed on the London Stock Exchange didn't report any fall in prices during this week despite the local adverse security developments. In fact, their prices remained in line with those quoted on the Beirut Stock Exchange.

Finally, Lebanon's equity market performance this week was similar that of other emerging markets, as reflected by a 1.6% decrease the Morgan Stanley Capital International Emerging Market Free Index (MSCI EMF). Likewise, relative to Arabian markets, Lebanon performed in a similar way, as reflected by a weekly decrease of 1.5% in the Morgan Stanley Capital International Arabian markets index.

Audi Indices for BSE	09/05/08	02/05/08	28/12/07	
22/1/96=100				
Market Cap. Index	554.60	567.79	504.87	↓
Trading Vol. Index	207.7	571.9	538.1	↓
Price Index	163.44	167.32	149.12	↓
Change %	-2.3%	4.53%	-2.42%	↓
Market Cap. $m	13,157	13,470	11,977	↓
No. of shares traded	545,000	1,380,084	3,419,011	↓
Value Traded $000	11,856	32,601	42,288	↓
o.w. : Solidere	7,309	27,543	28,355	↓
Banks	4,477	4,929	11,500	↓
Others	70	129	2,433	↓

Bond Market: A status-quo prevails

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A status-quo prevailed on the Eurobond market. In fact, no selling operations were observed this week despite the relapse of local security conditions.

Prices remained unchanged, as reflected by a stable average yield of 8.23%, while the average spread shrank by eight basis points to 526 basis points due to an increase in benchmark yields. For instance, the average yield on 5-year US Treasury bills rose by 12 basis points, from 3.06% to 3.18%, as the record high oil prices have given signals for a rising inflation, and have suggested a possible increase in interest rates.

It is worth mentioning that since year-end 2007, the average spread widened moderately by 65 basis points. In details, the average spread reached a year high level of 631 basis points at mid-March 2008 due to the persisting local political stalemate and the absence of a general consensus on the Presidential election. However, it started to shrink gradually thereafter under the impact of the rising Lebanese yields' attractiveness after the Federal Reserve decided to cut interest rates, and Moody's changed the outlook on Lebanon's ratings from "negative" to "stable".

Eurobonds Indicators	09/05/08	02/05/08	28/12/07	
Total tradable size $m	17,320	17,333	16,965	↓
o.w.: Sovereign bonds	16,708	16,708	16,335	⇔
Average Yield	8.23%	8.22%	8.13%	↑
Average Spread	526	534	458	↓
Average Life	4.96	4.96	4.83	⇔
Yield on US 5-year note	3.18%	3.06%	3.58%	↑

ARAB STOCK MARKETS INDICES:

	09-May-08	02-May-08	01-Jan-08	Weekly change	End-year-to-date change
Beirut stock market	163.4	167.3	149.1	-2.3%	9.6%
Abu Dhabi securities market	118.5	118.6	129.1	-0.1%	-8.2%
Amman stock exchange	526.6	494.2	482.6	6.6%	9.1%
Bahrain stock exchange	242.8	240.8	260.4	0.8%	-6.8%
Casablanca stock exchange	344.4	343.2	319.1	0.4%	7.9%
Doha securities market	189.0	184.2	183.6	2.6%	2.9%
Dubai financial market	140.7	140.8	164.8	-0.1%	-14.6%
Egypt capital market	580.4	586.9	585.2	-1.1%	-0.8%
Kuwait stock market	258.6	262.0	302.7	-1.3%	-14.6%
Muscat securities market	400.4	400.1	427.5	0.1%	-6.3%
Saudi stock market	245.4	253.6	330.3	-3.2%	-25.7%
Tunis Stock Exchange	125.2	124.6	109.3	0.5%	14.5%
AMF Composite	296.2	299.2	345.4	-1.0%	-14.2%

Source: Arab Monetary Fund

INTERNATIONAL MARKET INDICATORS:

	09-May-08	02-May-08	28-Dec-07	Weekly change	End-year-to-date change
EXCHANGE RATES					
YEN/$	103.82	104.46	112.06	-0.6%	-7.4%
$/£	1.9586	1.9740	1.9980	-0.8%	-2.0%
$/Euro	1.5430	1.5570	1.4713	-0.9%	4.9%
STOCK INDICES					
DOW JONES INDUSTRIAL AVERAGE	12,745.88	13,058.20	13,365.87	-2.4%	-4.6%
S&P 500	1,388.28	1,413.90	1,487.49	-1.8%	-6.7%
NASDAQ	2,445.52	2,476.99	2,674.46	-1.3%	-8.6%
CAC 40	4,960.56	5,069.71	5,612.41	-2.2%	-11.6%
Xetra Dax	7,003.17	7,043.23	8,067.32	-0.6%	-13.2%
FT-SE 100	6,204.70	6,215.50	6,476.90	-0.2%	-4.2%
NIKKEI 225	13,655.34	14,049.26	15,307.78	-2.8%	-10.8%
COMMODITIES					
GOLD OUNCE	879.05	874.00	839.19	0.6%	4.8%
SILVER OUNCE	16.72	16.67	14.84	0.3%	12.7%
BRENT CRUDE	122.99	116.27	96.57	5.8%	27.4%
LEADING INTEREST RATES (%)					
1-month Libor	2.62	2.70	4.63	-0.08	-2.01
US Prime Rate	5.25	5.25	7.25	0.00	-2.00
US Discount Rate	2.25	2.25	4.75	0.00	-2.50
US 10-year Bond	3.92	3.76	4.14	0.16	-0.22

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