

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market Stock Market

	31/08/12	24/08/12	% Change
BLOM Stock Index*	1126.32	1124.27	0.18%
Average Traded Volume	67,973	60,328	12.67%
Average Traded Value	775,487	624,468	24.18%

*22 January 1996 = 1000



Banking Sector

	Mkt	31/08/12	24/08/12	% Change
BLOM (GDR)	BSE	\$7.70	\$7.70	0.00%
BLOM Listed	BSE	\$7.40	\$7.40	0.00%
BLOM (GDR)	LSE	\$7.60	\$7.60	0.00%
Audi (GDR)	BSE	\$6.00	\$5.93	1.18%
Audi Listed	BSE	\$5.49	\$5.24	4.77%
Audi (GDR)	LSE	\$5.90	\$5.90	-0.03%
Byblos (C)	BSE	\$1.52	\$1.51	0.66%
Byblos (GDR)	LSE	\$79.00	\$79.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.90	\$1.90	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.99	\$1.99	0.00%

	Mkt	31/08/12	24/08/12	% Change
Banks' Preferred Shares Index *		\$104.48	\$104.34	0.13%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.00	\$10.00	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$101.30	\$101.30	0.00%
Byblos Preferred 09	BSE	\$102.00	\$102.00	0.00%
Bank of Beirut Pref. D	BSE	\$25.90	\$25.90	0.00%
Bank of Beirut Pref. E	BSE	\$25.80	\$25.65	0.58%
BLOM Preferred 2011	BSE	\$10.17	\$10.17	0.00%
Bank of Beirut Pref. H	BSE	\$25.55	\$25.45	0.39%

* 25 August 2006 = 100

The BLOM Stock Index (BSI), Lebanon's leading index, increased by 0.18% this week to 1,126.32 points, resulting in a 4.28% loss since year start. Market capitalization grew by \$16M to \$8.91B while the average daily traded volume was 67,973 shares worth \$775,487 higher than last week's 60,328 shares valued at \$624,468.

The Lebanese benchmark managed to outperform the Morgan Stanley (MCSI) Emerging Index which fell by 3.05% to 944.39 points. However, it lagged behind the S&P Pan Arab Composite LargeMidCap Index and the S&P AFE40 that rose by 0.75% and 0.33% to 111.32 and 53.94 points respectively. Egypt and Saudi Arabia's stock exchanges were the best performers recording respective growth levels of 2.24% and 1.93% while Abu Dhabi and Oman's bourses were the worst performers declining by 1.30% and 1.08% correspondingly.

The banking sector dominated the market accounting for 69% of total value traded. Audi listed stock surged 4.77% to \$5.49 while its GDR climbed by 1.18% to \$6.00. Moreover, Byblos listed stock gained 0.66% to reach \$1.52. On the other hand, the preferred shares index rose by 0.13% to 104.48 points characterized by the 0.58% and 0.39% increase of Bank of Beirut Preferred E and H shares to \$25.80 and \$25.55 respectively.

As for the real estate sector, Solidere class A shares fell by 4.51% to \$12.69 while its class B shares also lost 2.69% settling at \$12.66.

In the industrial sector, Holcim Liban jumped 7.59% to stand at \$16.72.

Real Estate

	Mkt	31/08/12	24/08/12	% Change
Solidere (A)	BSE	\$12.69	\$13.29	-4.51%
Solidere (B)	BSE	\$12.66	\$13.01	-2.69%
Solidere (GDR)	LSE	\$12.50	\$12.41	0.73%

Looking ahead, the activity of the stock market will remain correlated with the economic and security developments. As stocks are becoming cheap, the Lebanese equity market will be more attractive for investors.

Manufacturing Sector

	Mkt	31/08/12	24/08/12	% Change
HOLCIM Liban	BSE	\$16.72	\$15.54	7.59%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.05	\$3.05	0.00%

Funds

	Mkt	31/08/12	24/08/12	% Change
Beirut Preferred Fund	BSE	\$102.80	\$102.80	0.00%
BLOM Cedars Balanced Fund Tranche "A"	-----	\$6,678.80	\$6,665.09	0.21%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,062.80	\$5,052.07	0.21%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,072.59	\$5,062.18	0.21%
BLOM Bond Fund	-----	\$9,986.31	\$9,986.31	0.00%

Retail Sector

	Mkt	31/08/12	24/08/12	% Change
RYMCO	BSE	\$2.29	\$2.29	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

Tourism Sector

	Mkt	31/08/12	24/08/12	% Change
Casino Du Liban	OTC	\$565.00	\$565.00	0.00%
SGHL	OTC	\$4.50	\$4.50	0.00%

Foreign Exchange Market

Lebanese Forex Market

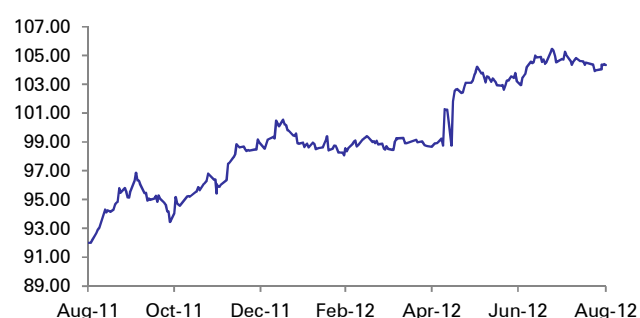
	31/08/12	24/08/12	%Change
Dollar / LP	1506.50	1506.50	0.00%
Euro / LP	1891.00	1891.16	-0.01%
Swiss Franc / LP	1575.40	1574.58	0.05%
Yen / LP	19.19	19.19	0.00%
Sterling / LP	2385.17	2388.33	-0.13%
NEER Index**	104.33	103.96	0.36%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

Nominal Effective Exchange Rate (NEER)



The exchange rate between the Lebanese Pound and the US dollar declined on the local exchange market this week to \$/LP 1,500.5 - \$/LP 1,503.5 with a mid-price of \$/LP 1,502 after having increased to \$/LP 1,506 last week. Foreign assets (excluding gold) at the Central Bank diminished by a monthly 0.4% to \$35.21 billion by the end of July 2012, while the dollarization rate of private sector deposits remained almost unchanged at 65% by the end of June 2012, down from 66% in December 2011.

In international markets, the euro and the US dollar continued to fluctuate to speculative trades ahead of speeches by key policy makers, but ended the week almost flat at €/ \$ 1,2544 on Friday August 31, 12.30 pm Beirut time. Wednesday, the single currency gained traction ahead of a meeting between Italian and German Premiers. It gained further when US policy makers showed little confidence in the decisions that could be taken by Fed Chairman Ben Bernanke in his annual Monetary Policy speech by the end of the week. However, concerns over the Eurozone's crisis flared up again with Spanish Premiere stating that his government will delay a potential request for financial support. The Lebanese Pound closed at €/LP 1891, up from €/LP 1891.16 in the previous week. The Nominal effective exchange rate (NEER) added 0.36% to 104.33 points

Money & Treasury Bills Markets

Money Market Rates

	31/08/12	24/08/12	Change bps
Overnight interbank	2.75	2.75%	0
BDL 45-day C	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	31/08/12	24/08/12	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Broad money M3 increased by LP348B (\$230.85M) during the week ending August 16 to reach LP154,161B (\$102.26B). Accordingly, M3 increased by 7.71% y-o-y and 5.18% from end of December 2011. M1 went down during the week by LP106B (\$70.32M) due to an LP83B (\$55.06M) decrease in demand deposits and a LP23B (\$15.26M) drop in money in circulation. Total deposits (excluding demand deposits) climbed by \$301.53M as term and saving deposits in LP advanced by \$26.53M, and deposits denominated in foreign currencies increased by \$275M. As for the dollarization rate of broad money, it rose by 14 basis points on a weekly basis to 58.42%. The overnight interbank rate stood at 2.75% during the month of May, according to the Association of Lebanese Banks.

In the TBs auction held on August 23, the Ministry of Finance raised LP97.46B (\$64.65M) through the issuance of Treasury Bills. The 36M maturity paper captured the bulk of demand, representing 99.06% of total subscriptions, while the 12M and 24M papers accounted for less than 1%. During the auction, the average discount rate for the 12M paper and the average coupon rate for the 24M and 36M papers stood at 5.08%, 5.84% and 6.5% respectively. Worth noting that the MoF continued to undertake all accepted bids.

Eurobond Market

Eurobonds Index and Yield

	31/08/12	24/08/12	Change	Year to Date
BLOM Bond Index (BBI)*	106.490	106.500	-0.01%	-4.01%
Weighted Yield**	5.78%	5.79%	-1	100
Weighted Spread***	516	512	4	110

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

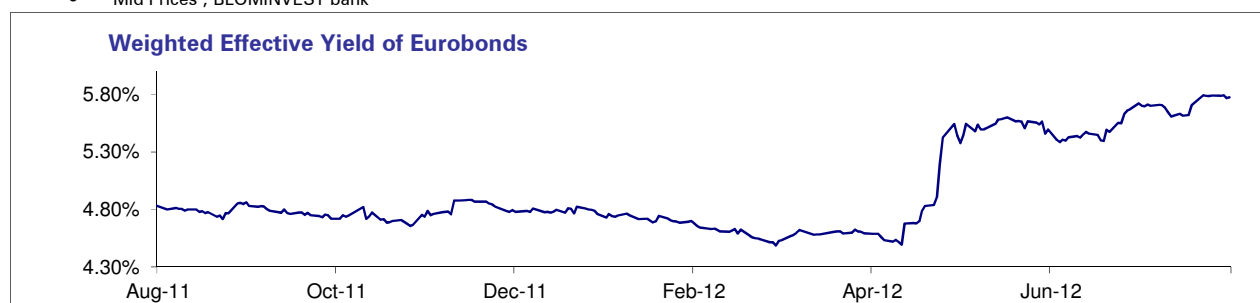
** The change is in basis points

***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	31/08/12 Price*	24/08/12 Price*	Weekly Change%	31/08/12 Yield	24/08/12 Yield	Weekly Change bps
2013, Mar - 9.125%	103.13	103.00	0.12%	3.03%	3.43%	-40
2013, Jun - 8.625%	104.00	104.00	0.00%	3.46%	3.55%	-9
2014, Apr - 7.375%	104.50	105.00	-0.48%	4.44%	4.16%	29
2014, May - 9.000%	107.00	108.13	-1.04%	4.57%	3.94%	63
2015, Jan - 5.875%	102.50	103.00	-0.49%	4.74%	4.53%	22
2015, Aug - 8.500%	109.75	110.50	-0.68%	4.88%	4.63%	24
2016, Jan - 8.500%	110.75	111.13	-0.34%	4.99%	4.89%	10
2016, May - 11.625%	122.00	121.88	0.10%	5.01%	5.06%	-6
2017, Mar - 9.000%	114.25	114.88	-0.54%	5.42%	5.28%	13
2018, Nov - 5.150%	97.50	99.00	-1.52%	5.64%	5.34%	30
2020, Mar - 6.375%	100.50	101.50	-0.99%	6.29%	6.12%	17
2021, Apr - 8.250%	112.00	113.00	-0.88%	6.41%	6.27%	14
2022, Oct - 6.100%	98.50	99.75	-1.25%	6.30%	6.13%	17
2024, Dec - 7.000%	103.00	104.00	-0.96%	6.64%	6.52%	12
2026, Nov - 6.600%	98.00	99.75	-1.75%	6.82%	6.63%	19

• Mid Prices ; BLOMINVEST bank

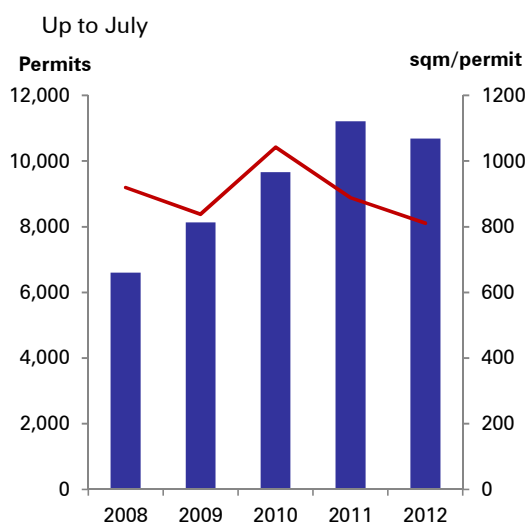


Activity on the Eurobond market was slow this week as turmoil in Syria and concerns over spreading violence in Lebanon kept investors from adding more papers to their portfolios, while downward market pressure decelerated as average yields remained at their highest since October 2009. The BLOM Bond Index (BBI) slid 0.01% to 106.49 points and the portfolio's average weighted yield contracted 1 basis point (bps) to 5.78%. As demand for US Treasuries gained tract after discouraging economic reports, the spread between average Eurobond and US Treasury yields widened 4 basis points (bps) to 516 bps. In comparison, the JP Morgan emerging markets' bond index added 0.3% from the previous month. Worth noting that this week the Beirut Stock Exchange said it will de-list Tuesday, September 4, 2012 a Eurobond Issue, worth USD 600 million carrying an interest rate of 7.75% and maturing on September 7, 2012.

Lebanon's credit default swap for 5 years (CDS) was last quoted between 503-540 bps, down by an average 20 bps from last week. In regional economies, 5-year CDS quotes in Dubai and Saudi Arabia also narrowed to 308-318 bps and 99-105 bps from 309-320 bps and 105-115 bps respectively. In emerging Turkey and Brazil, the 5-year CDS quotes closed at 181-184 bps and 131-135 bps respectively.

ECONOMIC AND FINANCIAL NEWS

Number of Construction Permits and Average Area Authorized by Permit



Source: Order of Engineers in Beirut and North

Construction Permits Decline by 4.7% up to July 2012

The number of construction permits issued in the first seven months of 2012 slid by 4.7% year-on-year to 10,687, data from the Order of Engineers in Beirut and the North showed this week. This annual decline represents a slowdown in developers' requests for permits in the second half of 2011 and in early 2012; given that a permit is usually issued 6 to 12 months after an application for a project is filed. Regional political concerns in 2011 had incited developers to curb their real estate investments. The number of issued permits up to July 2012 was still 11% above that of the same period in 2010, indicating expectations of sustained demand for housing over the longer term. Moreover, construction area authorized by permits dropped at a much faster y-o-y rate from 2011 to 8.66 million square meters (sqm). Average area authorized for construction in the first seven months of 2012 was thus 811 sqm per permit, compared to 888 sqm per permit a year earlier. In July alone, the number of issued permits jumped by 14% y-o-y to 1,691 while area authorized by permits remained flat at 1.18 million sqm. Average area per permit was thus 700 sqm, compared to 803 sqm / permit in July 2011. The bulk of projects continued to be absorbed by Mount Lebanon that accounted for 761 or 45% of permits and 43% of authorized area. South Lebanon followed with 237 issued permits or 14% of the total, while Nabatieh and North of Lebanon followed with 189 and 186 permits respectively.

Transfers to EdL

	In May		Jan-May	
	2012	2011	2012	2011
Transfers to EDL o/w	220.9	129.4	934.7	628.2
Debt Service	0	1.3	28.5	25.2
Reimbursement for purchase of gas and fuel	220.9	128.1	906.2	603

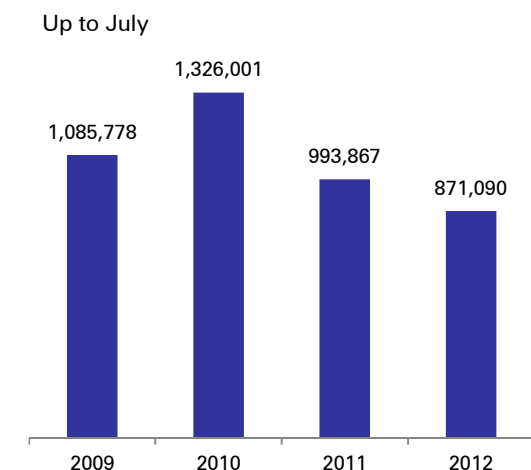
Source: Ministry of Finance

Transfers to Electricite du Liban Jump by an Annualized 49% up to May 2012

Transfers from the Lebanese Treasury to Electricite du Liban (EDL) amounted to \$934.7 million between January and May 2012, representing 25.9% of primary government expenditures, according to data released by the Ministry of Finance. This compares to a considerably lower share of 20.4% of government spending in the same period of 2011. Almost 97% of the period's transfers or \$906 million were used to cover oil and gas imports and the remaining were used for debt service. Transfers in the first five months of 2012 were thus \$306 million larger than transfers in the same period of 2011, as a 38% annual increase in average crude oil prices to \$111.1 / barrel boosted reimbursements to oil and gas suppliers. EDL's contribution to the total bill was also considerably lower this year at 1.9% of total bills compared to 6.9% last year.

Hotel Occupancy in Beirut Dropped to 45%

Number of Tourists



Source: Ministry of Tourism

Touristic revenues are expected to fall back 38% this year compared to 2010's causing the sector to lose about \$2.7B, as the estimated revenues won't bypass \$4.3B against a realized \$7B in 2010, according to Mr. Pierre Achkar, president of the Lebanese Hotel Association. Mr. Achkar was pessimist about the coming months, citing that hotel occupancy in Beirut dropped to 45% against 65% and 70% in the same period last year, due to the unstable political situation in Lebanon and the recent adverse events against citizens of Arab nationalities, which have reduced the touristic flows and caused small to medium investments to stumble noting that some restaurants are already facing trouble settling their loans to Kafalat.

CORPORATE DEVELOPMENTS

BankMed Net Profits up by 8% in H1 2012

BankMed H1 Financial Highlights

(In Billions of \$)	2012	2011	% Ch
Total Assets	13.19	11.79	11.8%
Customers' Deposits	9.32	8.01	16.3%
Loans and Advances	3.83	3.49	9.7%
Equity	1.00	0.99	1.1%
Net Profits (\$M)	64.16	59.35	8.1%

Source: Company Data

Bankmed released unaudited financial statements for the first half of 2012. Revenues registered USD 116.73 million up 15% from the same period last year. Net income is also up by 8% to USD 64.16 million yielding a Net profit margin of 55% down from 58% last year. Customer deposits are also up by 16% reaching USD 9.3 billion fuelling Bankmed's capacity to increase loans by 9.7% y-o-y to USD 3.83 billion. This partly contributed to an increase in book value of equity by 1.12% to USD 999 million.

EuroMena II Invests \$20 Million in Sakson

Major EuroMena II Investments

Firms	Country	Investment
Sakson	Egypt	\$20 Million
Khoury Home	Lebanon	\$13.5 Million
Al Oyoum al Dawli Hospital	Egypt	Acquired 51% of hospital

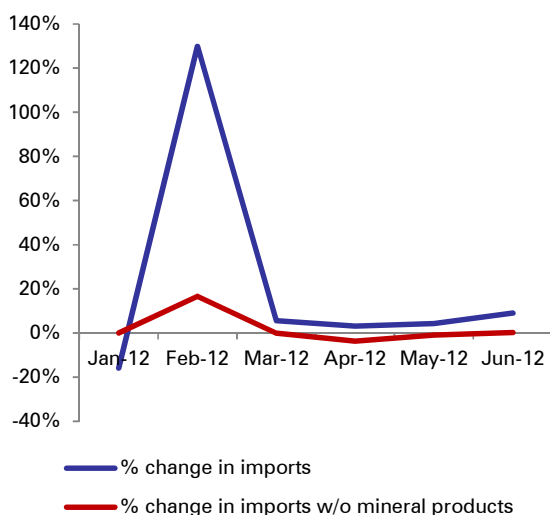
Source: Company Data

The private equity firm Capital Investment Group Ltd.'s EuroMena II fund has planned to invest \$20 million in Sakson Petroleum Services Holding S.A.L, a Lebanese incorporated provider of oil and natural gas drilling services based in Egypt. This investment will be used to finance a pipeline to be built over the next 2 years with expected costs of \$100 million. With EuroMena III, a new equity fund to be launched by Capital Trust Group expected to draw in \$200 to \$300 million for high growth MENA investments, the pipeline financing will likely be covered in the time expected.

FOCUS IN BRIEF

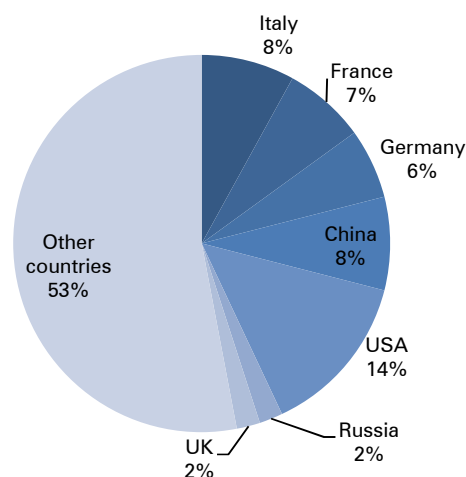
Imports of Goods to Lebanon Stagnate in the Context of Internal and Regional Instability

Trend of Imports to Lebanon



Source: Lebanese Customs; Blominvest Research Department

Breakdown of Imports to Lebanon by Country of Origin



Source: Lebanese Customs; Blominvest Research Department

The ongoing internal and regional instability continue to take its toll on the Lebanese economy and cause a slowdown in demand, mostly perceived through stagnating imports coming into the country. While statistics show that the value of goods imported over the first half of the year grew by 18% y-o-y to \$10,882 million, the witnessed growth is not essentially fundamental. Mineral products, constituting 30% of total imports to Lebanon, grew by a sharp 45% y-o-y during the considered period. Hence, when the latter product growth is being overlooked, the value of total imports to Lebanon would be up by only a mere 1.4% y-o-y, the equivalent of 133 million dollars. In volume term, the result yielded is identical; when the rise in mineral products is omitted, the growth of imports would fall from the highs 20% y-o-y to a moderate 2.8% y-o-y, reaching 8.2 million tons over the first six months of the year. The stagnation in imports is the expected manifestation of tamed domestic demand for goods in light of tough internal and regional political developments, which are putting consumers' confidence in the economy at lows.

A closer inspection reveals that the rising value and volume of imported mineral products do not necessarily reflect higher demand for that good. Mineral products topped the list of imported good with a 53% share of the total and witnessed a strong 39% y-o-y rise to 4.3 million tons during the first half of the year. While the sharp growth reflects, partly, a higher consumption as it followed the subsidization of fuel by the Lebanese government that came in response to shaky political conditions and their potential repercussions on the economic activity, other non-fundamental factors have intervened to drive the rise. In fact, the growing political instability in Syria put a halt to the illegal importation of mineral products which used to cover up a big portion of demand. Hence, in light of such an occurrence, the country resorted to legally importing the product and therefore, the official statistics might be distorting the reality as rising import of mineral products do not necessarily reflect an increase in consumption.

Machinery and mechanical appliances, the greatest imported good after mineral products, fell over the first half of the year amidst a gloomy political environment which repercussions reached business confidence and decision-making. The former good, making up to 10% of the value of imported products, fell by 2% y-o-y over the considered period. In volume term, the fall reached 1%, suggesting that less business ventures took place during that period, reflecting lower private investment.

Conversely, the import of food products continued to grow during the period, revealing a resilient domestic food consumption. Imported food related items, making up a significant 14% of total imported products, grew by 6.4% y-o-y in volume term and by 3% y-o-y in value term. The robust growth come to no surprise as such goods are perceived as necessities rather than products of lux and hence show less elasticity and sensitivity to shocks. However, the difference in the growth pace between volume and value relates mostly to the deflationary effect of weak global economic conditions in 2012 and the consequential depreciation of the euro that tamed the growth of value of imported goods.

The quantity imported of some durable products has fallen sharply over the first six months of the year, suggesting a lower private consumption. While imports of cars rose by a significant 11% y-o-y, most of durable goods imported into Lebanon were impacted by the slowing economy. For instance, imports of pearls, precious, or semi-precious stones, capturing an 8% share of total import, saw their imported value falling by 22% y-o-y and their volume by 1%. Base metal and articles of base metal, making up 7% of total imported goods, fell by 3% y-o-y in value term and by a mere 0.2% y-o-y in volume term.

Lebanon imports the most from Western countries¹; hence import of goods was not impacted by disrupted production or shipment in the Arab world notably in Syria. The biggest partner for Lebanon is the United States of America from where 14% of goods are imported. The quantity imported over the first half of this year was 57% y-o-y higher than that brought in a year earlier, consisting mostly of petroleum oils, medicaments, beauty and food items. Next in line is China from where 8% of goods were imported in 2012; a quantity equivalent to 4% more than that imported in 2011. Italy, France, and Germany, together export 20% of all goods imported to Lebanon. Among Arab countries impacted by the Arab Spring, Egypt exported 4% of the total quantity of goods imported to Lebanon over the first half of 2012, and the quantity stood 19% y-o-y lower than that exported a year earlier. Syria, exported to Lebanon 8% y-o-y less goods over the considered period, capturing only a mere 1% of total goods imported to Lebanon.

The breakdown of imports by customs offices maintained its historic trend. Port of Beirut stood as the main mean of importation where 69% of goods that entered the country, the equivalent of \$7,549 million over the first of the year passed through. Airport was the second most hectic, where 18% of imported goods, the equivalent of \$1,985 million made their way over the period considered.

¹ In value term



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