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# The MENA WEEKLY MONITOR

## Economy

### p.2 IIF EXPECTS CAPITAL FLOWS TO MENA REGION TO RISE TO US$ 182 BILLION THIS YEAR

In a report on capital flows to the MENA region, the Institute of International Finance (IIF) said it sees MENA capital flows rising to US$ 182 billion in 2018 driven by sovereign issuance and banking flows.

Also in this issue



## Surveys

### p.5 SAUDI CONSTRUCTION SECTOR SET FOR MAJOR EXPANSION, AS PER FITCH

According to Fitch, the rising oil prices will serve to shore up Saudi Arabia's fiscal position and allow the government to allocate additional funds into its expansive infrastructure agenda.

Also in this issue



## Corporate News

### p.7 EGYPT SIGNS OIL & GAS EXPLORATION DEAL WITH SHELL AND PETRONAS WORTH ABOUT US$ 1 BILLION

Egypt has signed a deep-water oil and gas exploration deal with Royal Dutch Shell and Malaysia's Petronas worth around US$ 1 billion for eight wells in the country's West Nile Delta, as per the Petroleum Ministry.

Also in this issue



## Markets In Brief

### p.9 ACTIVITY IN REGIONAL CAPITAL MARKETS TILTED TO THE DOWNSIDE

Activity in MENA equity markets remained skewed to the downside this week, as emerging market volatility and global trade woes continued to weigh on investor sentiment. This was reflected by 0.5% retreat in the S&P Pan Arab Composite Index. The Egyptian Exchange led the fall with a 3.0% drop in prices, and the Saudi Tadawul recorded a 1.3% decline in prices. In parallel, MENA fixed income markets saw mostly downward price movements, tracking declines in US Treasuries after the European Central Bank announced that it would halve its monthly asset purchases starting October 2018, signaling plans to halt its monetary stimulus at the end of the year.

**MENA MARKETS: WEEK OF SEPTEMBER 09 - SEPTEMBER 15, 2018**

| | | | |
|---|---|---|---|
| Stock market weekly trend | ↓ | Bond market weekly trend | ↑ |
| Weekly stock price performance | -0.5% | Weekly Z-spread based bond index | -1.0% |
| Stock market year-to-date trend | ↑ | Bond market year-to-date trend | ↓ |
| YTD stock price performance | +5.3% | YTD Z-spread based bond index | +3.6% |


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# ECONOMY

## IIF EXPECTS CAPITAL FLOWS TO MENA REGION TO RISE TO US$ 182 BILLION THIS YEAR

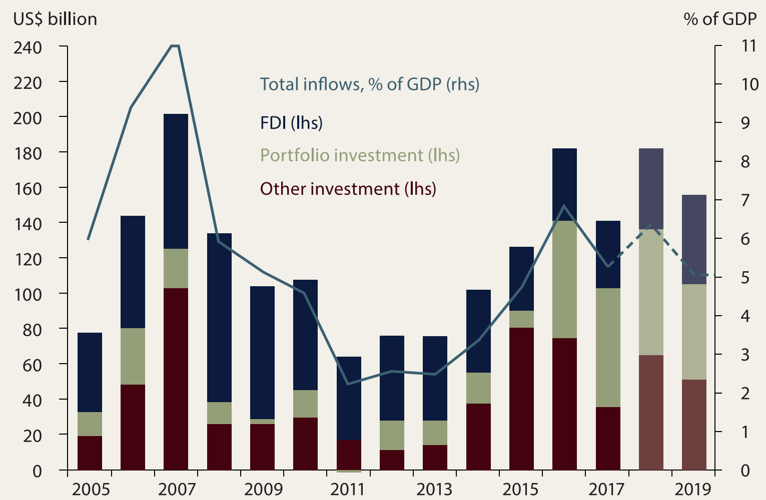
In a report on capital flows to the MENA region, the Institute of International Finance (IIF) said it sees MENA capital flows rising to US$ 182 billion in 2018 driven by sovereign issuance and banking flows. Political stability and reforms to improve the business climate remain preconditions for higher FDI inflows. Higher oil prices, dollar pegs, and large public foreign assets make oil exporters less prone to EM contagion. Oil importers are showing some signs of vulnerability to EM risk aversion and monetary tightening. Spillovers from Turkey have been limited due to relatively low trade and financial linkages, as per the same source.

Non-resident capital inflows to MENA should rise to US$ 182 billion in 2018, equivalent to 6% of the region's GDP. Downward revision from the IIF's March report comes mainly as the Saudi Aramco IPO has stalled. Notwithstanding the revision, the MENA region -particularly oil exporters- is still seeing an increase in foreign inflows this year, unlike other emerging markets (EMs) hampered by global monetary tightening and investors' risk aversion. Resident capital outflows are increasing as well, as the current account surpluses of the GCC countries are improving on the back of higher oil prices. Both portfolio and other investment outflows are on the rise, mainly driven by the SWFs of UAE, Saudi Arabia, and Qatar, according to the IIF report.

The main source of inflows in 2018 remains sovereign bond issuance, as GCC countries raised US$ 30.5 billion in Eurobonds in the first half of the year. Moving forward, the overall sovereign bond issuance is expected to decrease due to lower financing needs, said the IIF. Nonetheless, the robust performance of GCC primary markets stands out against the broader emerging markets trend, which is lagging behind 2017 levels. This comes as no surprise, as oil exporters present lower risk than other EMs due to their strong fundamentals, while presenting opportunities for regional diversification to bondholders.

Expected moderation in portfolio debt inflow will be offset by increased equity inflows on the back of MSCI's scheduled upgrade of Saudi Arabia, according to the IIF report. Foreign direct investment (FDI) flows are likely to remain subdued in the near term due to political uncertainty in some countries and lack of progress in improving the business environment. FDI inflows in MENA countries remain concentrated in energy and non-tradable sectors and have declined from a peak of 4.2% of GDP in 2008 to 1.5% in 2017, added the report.

### MENA NON-RESIDENT CAPITAL INFLOWS BREAKDOWN




*Source: IIF*

## CI UPGRADES EGYPT LONG-TERM FOREIGN AND LOCAL CURRENCY RATINGS TO "B+" FROM "B"

Capital Intelligence (CI) upgraded Egypt's Long-Term Foreign and Local Currency Ratings to "B+" from "B" and affirmed its Short-Term Foreign and Local Currency Ratings at "B". The outlook for Egypt's ratings is revised to "stable" from "positive".

The revision of the Outlook reflects larger-than-forecast increase in foreign exchange reserves, allowing for better coverage of gross external financing needs and greater capacity to weather external difficulties. It also reflects a decline in government debt to more sustainable levels in tandem with an improving fiscal position. Thirdly, it illustrates lower short-term financing risks due to improving access to international markets, in addition to support from the Extended Facility Fund (EFF). Last but not least, it shows improving macroeconomic management and better-than-forecast growth in FYE 2018, along with the implementation of the conditions of the EFF.

According to the report, the economic situation in Egypt continued to improve in FYE 2018 (which ended in June), supported by the implementation of reforms agreed in the EFF programme. Real output growth exceeded expectations, unemployment fell slightly, the inflationary pressures that emerged after the transition to a flexible exchange rate regime began to abate, and investor confidence picked up, as per the same source.

The Egyptian economy is expected to have expanded by about 5.2% in real terms in FYE 2018, compared to 4.2% in FYE 2017, due to a pickup in domestic demand and a solid rebound in the tourism sector. Medium-term growth prospects have improved, with the economy expected to grow by an average of 5.6% in FYE 2019-20, assisted by efforts to restore confidence in the economy, as well as support from regional neighbors and the IMF.

While consumer price inflation decreased to a still high annual average of 20.8%, the year-end rate was much lower (12.6% in June) and more in line with expectations for FYE 2019 (13.1%).

CI added that external vulnerabilities declined further, with foreign exchange reserves reaching a record level of US$ 44.3 billion (around 8.5 months of import cover) in June 2018, compared to US$ 17.6 billion (3 months of import cover) just two years earlier.

This increase is a result of a significant improvement in international competitiveness and a solid rebound in tourism flows, revenue from the Suez Canal, and renewed access to international markets.

The transition to a flexible exchange rate regime and consequent devaluation has put an end to the parallel market. In turn, this has helped channel foreign currency liquidity to the banking system. Moreover, the current account deficit halved from 5.8% of GDP in FYE 2017 to 2.8% of GDP in FYE 2018. Meanwhile, external debt remained manageable at 36.8% of GDP in FYE 2018 and is expected to increase to 39.5% of GDP in FYE 2020, according to CI.

The report added that the country's public finances are on a firmer footing, partly due to government efforts to rein in the budget deficit and reverse expensive fuel subsidies. The budget deficit remains high but is expected to have declined to 9.7% of GDP in FYE 2018, compared to 10.9% of GDP in FYE 2017.

As a result of improving budget metrics and in tandem with the increase in nominal GDP, central government debt is expected to have declined to 92.4% of GDP in FYE 2018 from around 103% in FYE 2017. Near-term refinancing risks are mitigated by the current appetite of the banking system to invest in sovereign debt and by Egypt's improved access to capital markets, as per the report.

The authorities recently issued a US$ 4 billion Eurobond on favourable terms, of which US$ 1.25 billion matures in 30 years.

The Egyptian government appears committed to gradually introducing reforms in order to secure timely EFF disbursements and has continued to introduce socially-sensitive reforms aimed at reducing the large budget deficit, including increases in value added tax (VAT) and improvements to the income tax collection system, as per the repot. However, implementation risk remains significant and reform slippage, should it occur, could potentially jeopardise future EFF disbursements, thereby resulting in renewed financing risks.

## ECONOMIC GROWTH IN DUBAI BROADLY STABLE THIS YEAR DESPITE SIGNS OF WEAKNESS IN THE REAL ESTATE AND TOURISM SECTORS, SAYS CAPITAL ECONOMICS

Economic growth in Dubai is expected to have been broadly stable this year despite signs of weakness in the real estate and tourism sectors, according to Capital Economics. The recent fiscal stimulus package and a step-up in preparations for the 2020 World Expo should mean that growth holds up well over the next 12-18 months.

Official GDP figures show that Dubai's economy expanded by 3.3% last year, slightly faster than growth of 3.2% in 2016 but still below the rates of 4% to 5% reached in 2013-2014.

That said, some sectors appear to be struggling. As a matter of fact, the real estate sector entered a fresh slump, with prices falling by around 7% year-on-year in July, their steepest decline since early 2016. That appears to reflect a large amount of supply coming on stream at a time when demand is still weak, as per Capital Economics.

Meanwhile, passenger and cargo traffic at Dubai International Airport has recovered from weakness earlier in the year, but growth is still sluggish. This partly reflects soft growth in the rest of the Gulf, with visitors from the rest of the GCC accounting for around 15% of all tourists to Dubai.

Looking ahead, Capital Economics expects Dubai growth to hold up well over the coming quarters. The real estate sector is likely to remain in doldrums, but it is not expected to result in any major strains on balance sheets.

Finally, surveys in Dubai suggest that conditions in the transport sector would improve as global trade volumes recover. Activity would also be supported by recent fiscal stimulus and a step up in preparations for the 2020 World Expo. Overall, Capital Economics penciled in GDP growth of 3.3% to 3.5% in 2018-19, before a sharp pick-up to 4.5% in 2020 as the World Expo rolls into town.

## TUNISIA TO OFFER PPP PROJECTS FOR ENERGY, TRANSPORT AND OTHER SECTORS WORTH US$ 4.7 BILLION

Tunisia plans to offer public private partnership (PPP) projects for the energy, transport and other sectors worth 13 billion dinars ($4.7 billion).

Details for 33 major projects would be unveiled next week, as per Reuters.

The partnerships include a deep water port and subway in the eastern city of Sfax as well as water, environment, logistic and technology projects, as per the same source.

# SURVEYS

## SAUDI CONSTRUCTION SECTOR SET FOR MAJOR EXPANSION, AS PER FITCH

According to Fitch, the rising oil prices will serve to shore up Saudi Arabia's fiscal position and allow the government to allocate additional funds into its expansive infrastructure agenda.

Saudi Arabia's construction sector is likely to expand quickly by global standards in the coming years, but not as fast as its GCC peers like Qatar and Oman, mainly due to the fall in oil prices which has forced a restructuring of the project pipeline, said a report by Fitch.

Also the ongoing difficulties in effectively implementing the government's Saudisation policy poses a growing risk to the kingdom's ability to deliver on its ambitious infrastructure development agenda, stated Fitch in its Saudi Arabia Infrastructure Report - Q4 2018.

The policy mandates private sector companies to hire a certain percentage of Saudi citizens in an effort to curb domestic unemployment and reduce reliance on public sector employment, as per the same source.

Following the imposition of a tax on companies that hire overseas workers in January as an incentive to hire locals, it is estimated that roughly 234,000 expatriate workers have left the country in the first quarter of the year, a trend which builds upon a broader exodus of 700,000 since the start of 2017.

According to Fitch, the rising oil prices will serve to shore up Saudi Arabia's fiscal position and allow the government to allocate additional funds into its expansive infrastructure agenda.

The price of brent crude is expected to average US$ 75/bbl in 2018 and rise to average US$ 81.2/bbl over the next five years, as per the same source.

Within the kingdom's infrastructure mix, Fitch said the economic diversification imperatives would support outperformance within the transport sector, while strong structural demand driven by a young population would incentivize investment into the energy and utilities segment.

A growing government emphasis on boosting Saudi Arabia's natural gas capacity is translating into heightened project activity, it stated.

Most recently, Turkish firm Tekfen Construction and Saudi Aramco have signed a US$ 590 million agreement for the construction of satellite gas compression plant pipelines for Saudi Arabia's Haradh Gas Increment Program.

Once the expansion project is complete, the gas plant's capacity is expected to increase by more than 1billion cm. The project will be completed over a period of 33 months, said the report.

According to Fitch, the scale of Saudi construction sector is the market's strongest attribute and also a key factor in its strong ranking in the Infrastructure Risk/Reward Index both regionally and globally.

The market will endure slow growth in the coming years, however, as the fall in oil prices has forced a restructuring of the project pipeline, although this will improve Saudi Arabia's risk profile over the long term by addressing transparency issues and opening up the competitive landscape, as per the report.

## MARKET CONDITIONS FOR MENA REINSURERS ARE EXTREMELY CHALLENGING, AS PER A.M. BEST

The Middle East and North African reinsurance industry is characterized by its challenging market conditions, borne out of unabatingly pressure on pricing, overcapacity and a higher-than-expected number of large losses in recent years, according to a new report by A.M. Best.

The report, titled "Longstanding MENA Reinsurers Demonstrate Resilience in Tough Market Conditions", states the impact of the competitive landscape has been more keenly felt amongst regional reinsurers that lack the scale and diversification of their foreign counterparts, coupled with "following" market practices that restrict their ability to dictate terms. Nevertheless, larger established regional reinsurers continue to weather the storm, focusing on bottom-line profitability and portfolio optimization.

Market conditions for MENA reinsurers are extremely challenging, with pressures on underwriting compounded by economic and political uncertainties. This in turn increases the desire for reinsurers to seek diversification and reduce potential volatility in earnings.

In A.M. Best's view, the long-term trends in credit quality are likely to be dependent on reinsurers' ability to successfully execute growth strategies in a highly competitive market.

The report adds whilst there are undoubtedly challenges, the MENA region remains an attractive growth prospect, with underlying insurance market growth and low penetration rates remaining key drivers. The economic outlook for MENA countries is set to benefit from recent increases to hydrocarbon prices. A.M. Best expects rises in insurance premiums to follow gross domestic product growth over the next few years.

The MENA markets still represent robust levels of insurance growth, although this is predominantly linked to mandatory health care. Many MENA markets, particularly non-GCC countries, are being encouraged by world governing bodies to adopt further liberalization and there remains the perception that the region has a low exposure to natural catastrophe risk. These elements continue to entice reinsurers to the MENA region, despite challenging pricing conditions, as per the same source.

A.M. Best expects over the medium term, the influx of reinsurance capacity will maintain competitive pressures, and any movement in market dynamics would only stem from a change in attitude from the international reinsurance market.

## MENA REGION HOLDS POTENTIAL IN THE MINING SECTOR, AS PER BMI

The MENA region holds huge potential from a mining investment perspective. However, despite considerable mineral and metals resources, much of the region's mining infrastructure remains under-developed because of a combination of political instability and tight government control over the industry. Mining investment in the region will gradually accelerate over the coming years, supported by rising mineral prices and government-driven efforts to diversify economic growth away from oil, as per BMI.

In details, support from the Egyptian government will help attract foreign investment in the country's gold sector. For instance, the Australian Embassy in Cairo, the Western Australian Department of Mines and the Egyptian Mineral Resources Authority announced in February a two-day capacity-building workshop on sustainable mining governance in Cairo. The workshop is funded by Australian miners Allied Gold Limited and Resolute Mining. Hence, BMI forecasts Egypt's gold production annual growth to average 5.0% over 2018-2027.

Furthermore, Oman will increasingly attract mining investment, given the country's stable operating environment compared with that of its regional peers, government support of the sector and rising mineral prices, as per BMI. Oman's solid project pipeline will drive production growth in key mineral sectors over the long term. In February, Alara Resources announced it had received an Economic Activities License for the Al Hadeetha copper-gold project. Although under-developed at present, BMI expects Oman's mining sector to increasingly attract investment as the government steps up efforts to accelerate the diversification of the economy away from hydrocarbons. While the majority of mining activity is state-owned at present, the country is actively courting private investors and public-private partnerships are likely to play an important role going forward.

# CORPORATE NEWS

## EGYPT SIGNS OIL & GAS EXPLORATION DEAL WITH SHELL AND PETRONAS WORTH ABOUT US$ 1 BILLION

Egypt has signed a deep-water oil and gas exploration deal with Royal Dutch Shell and Malaysia's Petronas worth around US$ 1 billion for eight wells in the country's West Nile Delta, as per the Petroleum Ministry.

The country also signed a second US$ 10 million deal with Rockhopper, Kuwait Energy and Canada's Dover Corporation for exploration in the Western Desert, the ministry statement said.

Egypt aims to be a regional hub for the trade of liquefied natural gas (LNG) after a string of major discoveries in recent years including Zohr, which holds an estimated 30 trillion cubic feet of gas.

## SABIC WINS NOD TO BUY NEARLY 25% STAKE IN CLARIANT

Saudi Basic Industries Corp (SABIC), a global company in diversified chemicals, received approvals for the purchase of a 25% stake in Clariant, the Swiss-based specialty chemicals company said. SABIC received all the regulatory approvals and the transaction is set to be completed.

SABIC, the diversified chemical company and a long-standing partner of Clariant in the Catalyst joint venture Scientific Design, entered into a purchase agreement regarding the acquisition of the stake in Clariant in January 2018.

## SAUDI GROUP BOOSTS STAKE IN JOHNSON CONTROLS JV COMPANY

Saudi Automotive Services Company (Sasco) said one of its subsidiaries, Investments and Equipment Company, completed the purchase of 485 additional shares in Middle East Battery Company (Mebco) for a total of SR 21.8 million (US$ 5.8 million).

Mebco is a joint venture of Johnson Controls International which has a 49% share in the company while the rest is owned by prominent Saudi investors.

With this move, Sasco's stake in Mebco capital has increased from 7.9% to 12.8%, said the company.

A Saudi-based company, Mebco is a major player in the production of AC Delco batteries.

Sasco said the stake buy is aimed at increasing its investments in companies complementing the activities of the automotive sector and enhancing its profitability.

## INVESTCORP ACQUIRES US WAREHOUSE PORTFOLIO FOR US$ 300 MILLION

Bahrain-based Investcorp, a provider and manager of alternative investment products, announced that its US-based real estate team recently acquired its largest US warehouse portfolio, totaling 4.5 million square feet and including 56 industrial properties across seven metropolitan markets, for US$ 300 million.

The portfolio was purchased as a single investment, with over 60% of the property in “Tier One” industrial markets, said a statement from Investcorp.

This investment provides Investcorp with a 90% leased portfolio of Class A and B warehouse, light manufacturing and flex buildings, across the e-commerce, manufacturing, design, wholesaling and food services industries, it stated.

This recent acquisition represents Investcorp’s ninth industrial portfolio, all of which were acquired over the past 36 months. With this addition, Investcorp now owns 14 million square feet of US industrial assets.

## BESIX COMPLETES MAJOR LNG TERMINAL PROJECT IN BAHRAIN

Besix, a Belgian construction company operating in the Middle East, completed the design and construction of the Bahrain LNG (Liquefied Natural Gas) Import Terminal, located offshore Muharraq Island in Bahrain.

The LNG Import Terminal forms a vital part of Bahrain's energy infrastructure as it provides the Kingdom with a secure supply of liquefied natural gas to meet the growth in demand for natural gas in order to fuel large industrial projects, to generate power and water, and for enhanced oil recovery, said a statement from Besix.

The scope of work included the design and construction of an LNG jetty constructed on drilled and grouted pin piles with a maximum length of 55 meters, located approximately 5 km offshore and with a seabed level at -18 meters, it stated.

The project also included a 600-meters-long rubble mound offshore breakwater with concrete armor units.

Construction on the terminal began in November 2016, with the first permanent pile completed by the end of May last year, said the statement from Besix.

All permanent works were completed within a short period of 14 months and clocking a total of 3 million man-hours with zero lost time incidents. The project was handed over early this month, as per the same source.

## QATAR'S NEBRAS POWER BUYS CONTROLLING STAKE IN ZON EXPLOITATIE NEDERLAND

Qatar's Nebras Power has acquired a controlling 75% stake in solar power company Zon Exploitatie Nederland.

Nebras Power Q.S.C. operates as an energy company that invests in large-scale power and water projects worldwide. The company primarily focuses on developing large scale Greenfield and Brownfield power and desalination projects. It also holds interests in district cooling/heating, as well as establishing LNG handling facilities for fuel supplies to power projects, water treatment plants, fuel supply sourcing, loading/unloading facilities related to power generation, water desalination, water treatment projects, and other related businesses.

## SAUDI CHEMICAL'S UNIT STARTS PRODUCTION FROM HAIL PLANT

Saudi Chemical Co. announced that its subsidiary, AJA Pharma, started the commercial production of pills and liquids lines in Hail plant.

AJA Pharma is a 95% unit of Saudi Chemical. In June 2013, Saudi AJA inked a contract to establish a factory in Hail to produce pills, liquids and creams.

Saudi Chemical Company, together with its subsidiaries, primarily engages in the trading of medicines in the Kingdom of Saudi Arabia and internationally. It operates in explosives, medicines and medical supplies and production of ammonium nitrate segments. The company is involved in the retail and wholesale trading of medicines, medical materials and syrups, pharmaceutical preparations, medical and surgical tools and equipment, and food products, as well as hospitals and medical centers supplies, and its related spare parts; the managing and owning of medicinal research and development, import, export, wholesale, and retail trade in industrial equipment and providing technical support services in explosions.

## CAPITAL MARKETS

### EQUITY MARKETS: ACTIVITY IN REGIONAL EQUITIES REMAINS SKEWED TO THE DOWNSIDE

Activity in MENA equity markets remained skewed to the downside this week, as emerging market volatility and global trade woes continued to weigh on investor sentiment. This was reflected by 0.5% retreat in the S&P Pan Arab Composite Index. The Egyptian Exchange led the fall with a 3.0% drop in prices, and the heavyweight Saudi Tadawul recorded a 1.3% decline in prices, while the Qatar Exchange posted a 2.0% increase in prices and the UAE equity markets saw no price change week-on-week.

The Egyptian Exchange posted a 3.0% drop in prices week-on-week, mainly dragged by weakness in realty and banking stocks following an emerging market currency turmoil. Emaar Misr for Development's share price shed 4.8% to LE 4.18. Heliopolis Housing's share price fell by 6.9% to LE 28.08. Medinet Nasr Housing's share price plummeted by 6.0% to LE 8.19. Talaat Moustafa Group's share price plunged by 6.1% to LE 11.12. Palm Hills Development's share price tumbled by 9.3% to LE 2.84. Also, Commercial International Bank's share price closed 1.5% lower at LE 84.61. Crédit Agricole Egypt's share price went down by 3.1% to LE 44.58. Housing & Development Bank's share price fell by 3.0% to LE 49.46.

The heavyweight Saudi Tadawul posted a 1.3% decline in prices week-on-week, on concerns over an escalating trade dispute between the US and China, and dragged by some unfavorable company-specific factors. NCB's share price plummeted by 5.4% to SR 39.60. SABB's share price plunged by 4.1% to SR 31.25. Arab National Bank's share price fell by 4.1% to SR 31.50. Al Rajhi Bank's share price retreated by 0.4% to SR 83.0. Also, Sahara Petrochemical Company's share price shed 2.8% to SR 16.52. Sahara Petrochemical Company announced an emergency shutdown of an affiliate (Al Waha petrochemicals Company) for as much as 17 days because of power outages, signaling that this could cost SR 23.3 million in profits during the third quarter of 2018. Nama Chemicals' share price fell by 3.1% to SR 24.06. The company said that it would halt production at some of its units for periods of above seven or 15 days for scheduled maintenance.

The Qatar Exchange registered a 2.0% rise in prices week-on-week, amid a strong buying interest from foreign institutions and supported by an increase in Brent oil prices. 28 out of 45 traded stocks

**EQUITY MARKETS INDICATORS (SEPTEMBER 09 TILL SEPTEMBER 15, 2018)**

| 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 | 85.4 | -0.7% | -13.1% | 6.8 | -13.8% | 0.9 | 9,194.0 | 3.8% | 5.5 | 0.73 |
| Jordan | 396.3 | -1.2% | 3.5% | 23.5 | -9.4% | 16.7 | 23,670.3 | 5.2% | 13.9 | 1.35 |
| Egypt | 313.9 | -3.0% | 2.3% | 135.2 | -34.0% | 776.9 | 47,870.1 | 14.7% | 11.8 | 2.40 |
| Saudi Arabia | 328.6 | -1.3% | 7.4% | 2,893.5 | -24.7% | 476.0 | 482,237.7 | 31.2% | 14.7 | 2.04 |
| Qatar | 180.1 | 2.0% | 16.9% | 262.8 | 56.3% | 27.5 | 151,572.7 | 9.0% | 14.8 | 1.95 |
| UAE | 120.7 | 0.0% | -2.6% | 521.7 | 11.0% | 1,488.6 | 246,202.1 | 11.0% | 11.8 | 1.73 |
| Oman | 219.8 | 2.9% | -7.3% | 37.0 | 46.9% | 75.1 | 19,446.4 | 9.9% | 10.5 | 1.20 |
| Bahrain | 126.6 | 0.1% | 3.4% | 8.8 | -17.4% | 14.9 | 21,086.6 | 2.2% | 10.6 | 1.18 |
| Kuwait | 95.8 | 0.6% | 10.4% | 215.6 | -15.0% | 311.3 | 85,648.0 | 13.1% | 15.4 | 1.62 |
| Morocco | 268.7 | 1.1% | -11.4% | 27.9 | -49.2% | 2.0 | 60,479.1 | 2.4% | 17.7 | 2.46 |
| Tunisia | 82.6 | -2.1% | 7.3% | 7.4 | -54.6% | 2.0 | 9,419.7 | 4.1% | 13.9 | 2.29 |
| **Arabian Markets** | **723.2** | **-0.5%** | **5.3%** | **4,140.1** | **-18.5%** | **3,191.8** | **1,156,826.7** | **18.6%** | **13.9** | **1.92** |

Values in US$ million; volumes in millions    * Market cap-weighted averages

*Sources: S&P, Bloomberg, Bank Audi's Group Research Department* posted price gains, while 14 stocks recorded price falls and three stocks saw no price change week-on-week. QNB shares accounted for 22% of the total trading value this week and registered price gains of 1.4% to close at QR 180.50. Commercial Bank of Qatar's share price went up by 1.8% to QR 40.0. Mesaieed Petrochemical's share price surged by 3.8% to QR 16.25. Industries Qatar's share price closed 3.2% higher at QR 127.99.

The UAE equity markets saw a nil change in prices week-on-week amid mixed price movements. In Dubai, Drake & Scull International's share price plunged by 9.0% to AED 0.405. The company said its shareholders would meet on September 27, 2018 to vote on company dissolution, in accordance with an article of UAE company law requiring firms to vote on whether they should continue operating if their accumulated losses have reached half of issued share capital. Ajman Bank, which owns 13.06% of DSI, saw a 2.0% decline in its share price to reach AED 0.926. Emaar Properties' share price decreased by 1.0% to AED 4.95. Emaar Development's share price shed 5.1% to AED 5.22. Emaar Malls' share price fell by 3.6% to AED 1.89. Emaar Properties denied local media reports that it will provide ten-year visas to investors in some of its projects. In contrast, Dubai Islamic Bank's share price went up by 1.0% to AED 5.17. Amanat Holdings' share price closed 1.7% higher at AED 1.21. DXB Entertainment's share price increased by 2.3% to AED 0.361.

In Abu Dhabi, Aldar Properties' share price went down by 1.6% over the week to AED 1.87. Aldar Properties is spinning off its investment division to create Aldar Investments, a subsidiary with around AED 20 billion worth of iconic real estate assets. In contrast, Dana Gas' share price rose by 3.5% to AED 1.19. The company's founding shareholder Crescent Petroleum said that it has obtained approval to raise its stake in Dana Gas to over 20% after Sukuk conversions diluted its stake.

## FIXED INCOME MARKETS: MENA BOND MARKETS PURSUE A DOWNWARD TRAJECTORY

MENA fixed income markets saw mostly downward price movements this week, tracking declines in US Treasuries after the European Central Bank announced that it would halve its monthly asset purchases starting October 2018, signaling plans to halt its monetary stimulus at the end of the year.

In the Abu Dhabi credit space, sovereigns maturing in 2019, 2026, 2027 and 2047 registered price falls of 0.07 pt to 0.55 pt week-on-week. Mubadala papers maturing in 2023, 2024 and 2029 posted price retreats of 0.08 pt, 0.25 pt and 0.15 pt respectively. IPIC papers maturing in 2020 and 2022 closed down by 0.17 pt and 0.07 pt respectively. Etisalat papers maturing between 2019 and 2026 posted price declines of up to 0.29 pt. Taqa papers maturing in 2019, 2021 and 2023 saw price falls of up to 0.33 pt. Taqa papers maturing between 2025 and 2036 were down by 0.12 pt to 0.45 pt.

As to papers issued by financial institutions, prices of First Abu Dhabi Bank'20, '22 and 2023 decreased by 0.03 pt, 0.10 pt and 0.05 pt respectively this week. ADCB'23 closed down by 0.29 pt. ADIB Perpetual (offering a coupon of 6.375%) was down by 0.04 pt. ADIB raised US$ 750 million worth of additional Tier 1 through a perpetual Sukuk that complies with the Basel III regulatory framework issued by the Central Bank of the UAE. As to plans for new bond issues, Aldar Properties hired JPMorgan, Standard Chartered and First Abu Dhabi Bank to arrange for the sale of a US dollar-denominated Sukuk issue of at least US$ 750 million. The issue proceeds would be used to refinance a US$ 750 million outstanding Sukuk due in December 2018.

In the Dubai credit space, sovereigns maturing between 2021 and 2029 posted weekly price falls of up to 0.24 pt. Prices of Emaar'19, '24 and '26 decreased by up to 0.21 pt. DP World'20, '23 and '37 closed down by 0.13 pt, 0.51 pt and 1.30 pt respectively. DP World hired Barclays, Citi, Dubai Islamic Bank, Emirates NBD Capital, First Abu Dhabi Bank, HSBC, JPMorgan, Société Générale and Standard Chartered Bank as joint book runners for a planned ten-year benchmark US dollar Sukuk offering. Elsewhere in the UAE, Sharjah'21, '24 and '28 traded down by 0.14 pt, 0.04 pt and 0.03 pt respectively week-on-week. Prices of Bank of Sharjah'20 dropped by 0.19 pt. Sharjah Islamic Bank'20 was down by 0.04 pt.

In the Saudi credit space, sovereigns maturing in 2021 and 2022 posted price retreats of 0.12 pt and

0.09 pt respectively this week. Saudi sovereigns maturing between 2025 and 2028 recorded price declines of up to 0.49 pt. Longer-term sovereigns maturing in 2030, 2046, 2047 and 2049 traded down by 0.37 pt, 0.25 pt, 0.82 pt and 0.60 pt respectively. As to plans for new issues, Saudi Electricity Company started on September 13, 2018 fixed income investor meetings ahead of a potential Sukuk issue that may be offered in one or multiple tranches. Within this context, Moody's assigned an "A2" rating to the proposed senior unsecured Sukuk certificates to be issued by Saudi Electricity Global Sukuk Company 4, a special purpose vehicle established in the Cayman Islands by Saudi Electricity Company. The outlook on the rating is "stable".

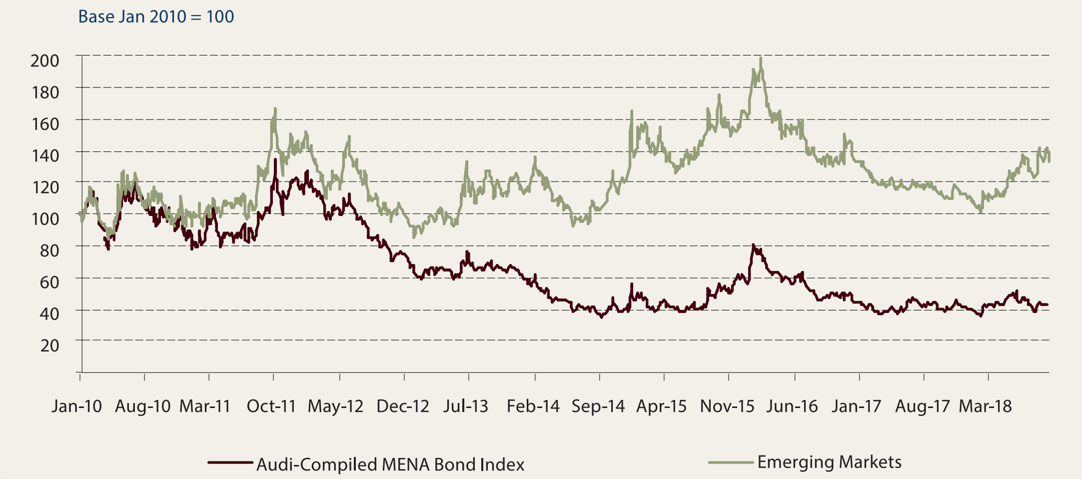
In contrast, Omani sovereigns maturing between 2021 and 2048 registered price gains ranging between 0.27 pt and 2.01 pt week-on-week. Amongst financials, National Bank of Oman'19 and Perpetual closed up by 0.79 pt and 0.16 pt respectively. National Bank of Oman mandated banks to arrange a series of fixed income investor meetings ahead of a potential five-year US dollar-denominated bond sale. The Omani lender hired Bank ABC, Citi, Crédit Agricole CIB, Emirates NBD Capital, First Abu Dhabi Bank, National Bank of Oman and Standard Chartered Bank as joint lead managers and book runners for the potential deal.

## MIDDLE EAST 5Y CDS SPREADS V/S INTL BENCHMARKS

| in basis points | 14-Sep-18 | 07-Sep-18 | 29-Dec-17 | Week-on-week | Year-to-date |
|---|---|---|---|---|---|
| Abu Dhabi | 63 | 63 | 64 | 0 | -1 |
| Dubai | 118 | 125 | 123 | -7 | -5 |
| Kuwait | 66 | 61 | 66 | 5 | 0 |
| Qatar | 81 | 82 | 105 | -1 | -24 |
| Saudi Arabia | 81 | 79 | 92 | 2 | -11 |
| Bahrain | 360 | 374 | 276 | -14 | 84 |
| Morocco | 105 | 112 | 121 | -7 | -16 |
| Egypt | 350 | 350 | 316 | 0 | 34 |
| Lebanon | 735 | 698 | 520 | 37 | 215 |
| Iraq | 429 | 441 | 424 | -12 | 5 |
| **Middle East** | **239** | **239** | **211** | **0** | **28** |
| **Emerging Markets** | **221** | **233** | **136** | **-12** | **85** |
| **Global** | **157** | **163** | **132** | **-6** | **25** |

*Sources: Bloomberg, Bank Audi's Group Research Department*

## Z-SPREAD BASED AUDI MENA BOND INDEX V/S INTERNATIONAL BENCHMARKS




*Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department*

## SOVEREIGN RATINGS & FX RATES

| SOVEREIGN RATINGS | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| **LEVANT** | | | |
| Lebanon | B-/Stable/B | B3/Stable | B-/Stable/B |
| Syria | NR | NR | NR |
| Jordan | B+/Stable/B | B1/Stable | NR |
| Egypt | B/Stable/B | B3/Positive | B/Positive/B |
| Iraq | B-/Stable/B | Caa1/Stable | B-/Stable/B |
| **GULF** | | | |
| Saudi Arabia | A-/Stable/A-2 | A1/Stable | A+/Stable/F1+ |
| United Arab Emirates | AA/Stable/A-1+* | Aa2/Stable | AA/Stable/F1+* |
| Qatar | AA-/Negative/A-1+ | Aa3/Stable | AA-/Stable/F1+ |
| Kuwait | AA/Stable/A-1+ | Aa2/Stable | AA/Stable/F1+ |
| Bahrain | B+/Stable/B | B2/Negative | BB-/Stable/B |
| Oman | BB/Stable/B | Baa3/Negative | BBB-/Negative/F3 |
| Yemen | NR | NR | NR |
| **NORTH AFRICA** | | | |
| Algeria | NR | NR | NR |
| Morocco | BBB-/Stable/A-3 | Ba1/Positive | BBB-/Stable/F3 |
| Tunisia | NR | B2/Stable | B+/Negative/B |
| Libya | NR | NR | NR |
| Sudan | NR | NR | NR |

NR= Not Rated RWN= Rating Watch Negative * Emirate of Abu Dhabi Ratings

| FX RATES (per US$) | 14-Sep-18 | 07-Sep-18 | 29-Dec-17 | Weekly change | Year-to-date |
|---|---|---|---|---|---|
| **LEVANT** | | | | | |
| Lebanese Pound (LBP) | 1,507.50 | 1,507.50 | 1,507.50 | 0.0% | 0.0% |
| Jordanian Dinar (JOD) | 0.71 | 0.71 | 0.71 | 0.0% | 0.0% |
| Egyptian Pound (EGP) | 17.92 | 17.89 | 17.76 | 0.2% | 0.9% |
| Iraqi Dinar (IQD) | 1,192.68 | 1,187.58 | 1,176.53 | 0.4% | 1.4% |
| **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) | 3.66 | 3.66 | 3.66 | 0.0% | -0.2% |
| Kuwaiti Dinar (KWD) | 0.30 | 0.30 | 0.30 | 0.0% | 0.0% |
| Bahraini Dinar (BHD) | 0.38 | 0.38 | 0.38 | 0.0% | 0.0% |
| Omani Riyal (OMR) | 0.38 | 0.38 | 0.39 | 0.0% | 0.0% |
| Yemeni Riyal (YER) | 250.00 | 250.00 | 250.00 | 0.0% | 0.0% |
| **NORTH AFRICA** | | | | | |
| Algerian Dinar (DZD) | 117.65 | 117.65 | 114.94 | 0.0% | 2.4% |
| Moroccan Dirham (MAD) | 9.43 | 9.45 | 9.35 | -0.3% | 0.8% |
| Tunisian Dinar (TND) | 2.77 | 2.79 | 2.48 | -0.4% | 12.0% |
| Libyan Dinar (LYD) | 1.39 | 1.38 | 1.36 | 0.5% | 2.2% |
| Sudanese Pound (SDG) | 18.00 | 18.00 | 7.02 | 0.0% | 156.6% |

*Sources: Bloomberg, Bank Audi's Group Research Department*

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