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## The LEBANON WEEKLY MONITOR

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According to banking sector statistics released by BDL this week, the month of September reported a positive deposit growth of US\$ 713 million despite the stream of "rumors" that characterized the Lebanese environment, raising the total growth since the beginning of the year to a moderate level of US\$ 5.3 billion (the equivalent of 3.1%).

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## Markets In Brief

**p.9 CAUTIOUS CALM REIGNS OVER LEBANESE CAPITAL MARKETS AMID RENEWED STANDSTILL IN CABINET FORMATION PROCESS**

With political bickering putting brakes on the cabinet formation process during its final stages and awaiting a new wave of meetings and negotiations, domestic capital markets saw this week a continued wait-and-see attitude amid foreign offer in the Eurobond market leading to a decline in prices and an expansion in spreads. The equity market witnessed a relative price standstill, and the foreign exchange market saw a relative calm amid some conversions to the benefit of the local currency for technical reasons at a time when BDL foreign assets stuck to their high levels. In details, Eurobond prices went down on the back of foreign selling in moderate volumes across the sovereign curve, within the context of the prolonged government formation process deadlock, while five-year sovereign CDS spreads contracted by 20 bps on a weekly basis to 685 bps. At the equity market level, the BSE saw a relative standstill in prices and the weekly trading value reached US\$ 40 million. As to the foreign exchange market, conversions in favor of the local currency exceeded US dollar demand. BDL's foreign assets rose by US\$ 27 million in the second half of October 2018 to reach US\$ 43.1 billion, covering 82% of LP money supply, which sheds light on the sustained Central Bank capacity to safeguard the exchange rate peg.

## LEBANON MARKETS: WEEK OF OCTOBER 29 - NOVEMBER 04, 2018

Money Market	↔	BSE Equity Market	↓
Certificates of Deposits Market	↔	GDR Market	↑
LP Tbs Market	↓	Eurobond Market	↓
LP Exchange Market	↔	CDS Market	↑

## ECONOMY

### ACCEPTABLE DEPOSIT GROWTH YEAR-TO DATE, THOUGH SLOWING DOWN IN THIRD QUARTER

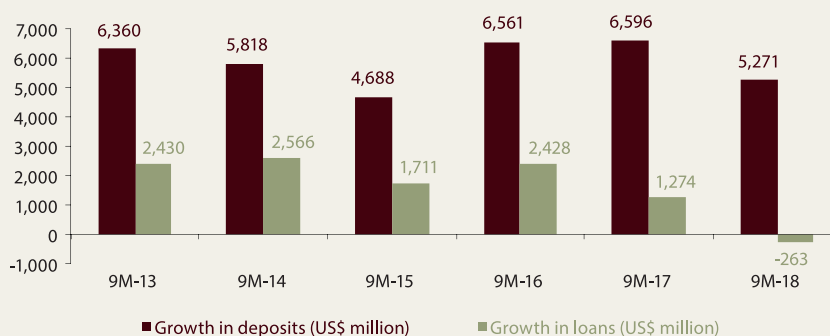
According to banking sector statistics released by BDL this week, the month of September reported a positive deposit growth of US\$ 713 million despite the stream of “rumors” that characterized the Lebanese environment, raising the total growth since the beginning of the year to a moderate level of US\$ 5.3 billion (the equivalent of 3.1%), though 20% less than the US\$ 6.6 billion growth reported over the same period of last year and 12% less than the average growth of US\$ 6.0 billion reported over the same period of the past five years.

When looking at the quarterly deposit growth, the third quarter (the summer months), which usually accounts for the most significant share of deposit growth in view of the significant incoming of Lebanese emigrants, reported a mild performance this year. While deposit growth was US\$ 2.5 billion in the first quarter and US\$ 2.1 billion in the second quarter, it faded to US\$ 0.6 billion in the third quarter, which is the weakest third quarter performance for the past 3 years.

The third quarter also saw net conversions from Lebanese Pounds to foreign currencies. The breakdown of deposit growth by currency suggests a contraction of LP deposits by US\$ 1.1 billion over the third quarter, while FX deposits rose by US\$ 1.7 billion over the third quarter. Since the beginning of the year, total deposit growth is driven to the extent of 83% in foreign currency and 17% in Lebanese Pound. This has raised deposit dollarization from 68.7% in December 2017 to 69.1% in September 2018, a 10-year high for Lebanon’s banking sector.

The breakdown of deposit growth by residence suggests that there has been a decent non-resident deposit growth of US\$ 1.9 billion over the first nine months, which is almost two times the growth reported over the same period of last year (US\$ 0.9 billion). As such, non-resident deposit growth, which represented 14.3% of total deposit growth over the first nine months of 2017 reported 35.5% of it over the first nine months of this year. This has yet contributed to enlarging the 9-month balance of payments deficit from US\$ 0.2 billion last year to 1.3 billion this year.

#### EVOLUTION OF MAIN BANKING AGGREGATES



Source: BDL

On the lending side, the year 2018 reported the first contraction in a couple of decades. Loans to the private sector contracted by US\$ 0.3 billion over the first nine months of 2018, while they rose by US\$ 1.3 billion over the 2017 same period and by an average of US\$ 2.2 billion over the same period of the past five years. The breakdown by currency suggests that FX loans contracted by US\$ 0.7 billion, while LP loans rose by US\$ 0.5 billion over the nine-month period. The breakdown by residence shows that loans to non-residents grew by US\$ 0.7 billion, while loans to residents contracted by US\$ 1 billion within the context of a sluggish domestic economy.

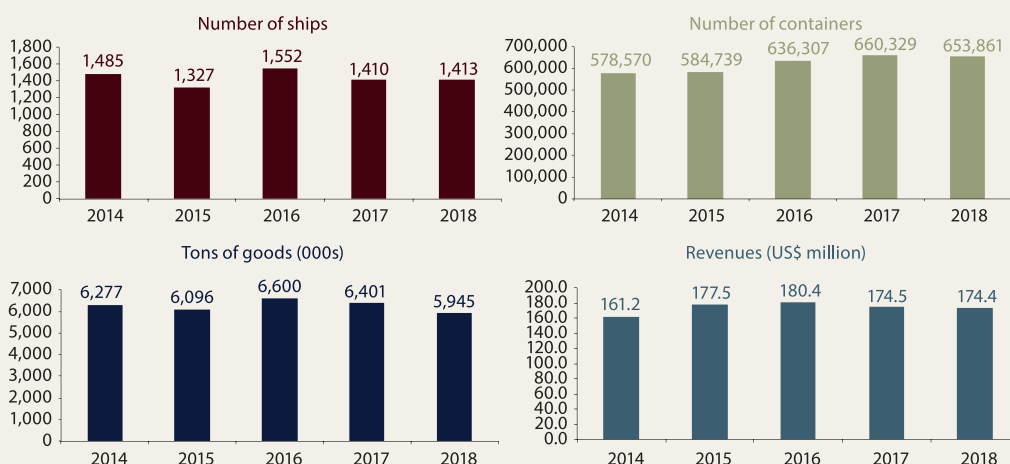
Latest banking sector interest rate figures suggest a yearly increase in the average LP deposit interest rate by 186 basis points between September 2017 and September 2018 from 5.55% to reach 7.39% (8.09% for the average rate on LP term deposits), in addition to a yearly increase in the average US\$ deposit interest rate by 71 bps to reach 4.36% (4.91% for the average rate on US\$ term deposits). Corrollarily, the spread between LP and FX deposit rates rose by 115 bps over the period, moving from 1.88% in September 2017 to 3.03% in September 2018.

Last but not least, overall tough operating conditions in the domestic market, as reflected by the net contraction in lending portfolios so far this year, were to a certain extent offset by relatively ameliorating spreads driven by BDL operations, in addition to cost control efforts on behalf of banks. This lead to a 2.6% yearly increase in banks' bottom lines in the first seven months of this year, as per the most recent BDL figures. As such, Lebanese banks posted stagnant profitability ratios, with an annualized return on assets ratio of 0.93% and an annualized return on equity ratio of 10.9% that yet remains below the cost of equity of Lebanese banks.

#### MERCHANDISE AT THE PORT OF BEIRUT DOWN BY A YEARLY 7.1% IN THE FIRST NINE MONTHS OF 2018

The latest statistics released by the Port of Beirut revealed a relative stability (-0.1%) in the Port's revenues in the first nine months of 2018 compared to the same period of the previous year. The Port's revenues actually reached US\$ 174.4 million in the first nine months of 2018.

##### ACTIVITY OF THE PORT OF BEIRUT (FIRST 9 MONTHS OF THE YEAR)



Source: Port of Beirut

In parallel, the number of containers recorded an annual fall of 1.0% to attain a total of 653,861 in the first nine months of 2018. The number of ships posted a tiny increase of 0.2% year-on-year to reach a total of 1,413 vessels in the first nine months of 2018. During the corresponding period of 2017, the former had registered an increase of 3.8% year-on-year and the latter decreased by 9.1%.

The quantity of goods decreased by a yearly 7.1% to 5,945 thousand tons in the first nine months of 2018, following a fall of 3.0% reported in the first nine months of 2017.

Transshipments rose by 10.8% year-on-year to attain 323,277 containers in the first nine months of 2018, following a rise of 29.8% in the corresponding period of 2017.

### VALUE OF CLEARED CHECKS DOWN BY A YEARLY 1.2% IN THE FIRST NINE MONTHS OF 2018

Total value of cleared checks, an indicator of consumption and investment spending in the Lebanese economy, declined by 1.2% year-on-year in the first nine months of 2018 pointing to a relative deceleration in spending during the aforementioned period.

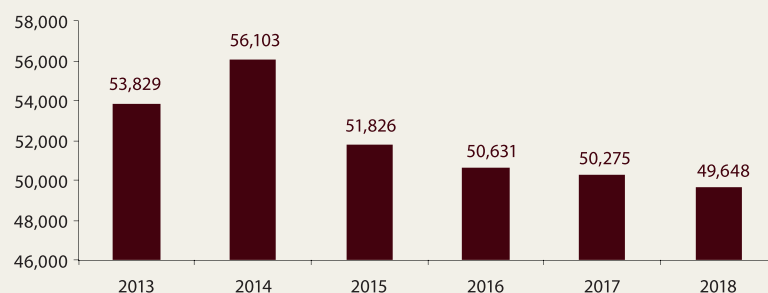
The value of cleared checks reached US\$ 49,648 million in the first nine months of 2018, against US\$ 50,275 million in the corresponding period of 2017.

A breakdown by currency shows that the banks' clearings in Lebanese Pounds amounted to LP 24,379 billion (+3.2%) in the first nine months of 2018 while those in FC amounted to US\$ 33,476 million (-3.3%).

Furthermore, the number of cleared checks registered 8,864,495 in the first nine months of 2018, down by 3.2% from 9,160,785 in the corresponding period of 2017. The average value per check rose by 2.1% year-on-year to stand at US\$ 5,601 in the aforementioned period of 2018.

The value of returned checks reached US\$ 1,160 million in the first nine months of 2018, against US\$ 1,050 million in the corresponding period of 2017. On the other hand, the number of returned checks registered 201,004 in the first nine months of 2018, up by 18.4% from 169,823 in the corresponding period of 2017.

#### CLEARING ACTIVITY (FIRST 9 MONTHS OF THE YEAR, US\$ MILLION)



Source: BDL

## SURVEYS

### CAPITAL INTELLIGENCE AFFIRMS LEBANON'S LT RATINGS AT "B"

Capital Intelligence (CI) affirmed Lebanon's Long-Term Foreign Currency (LT FC) and Long-Term Local Currency (LT LC) Issuer Ratings at "B". CI also affirmed the Short-Term Foreign Currency (ST FC) and the Short-Term Local Currency (ST LC) Ratings at "B". At the same time, CI revised the outlook for Lebanon's ratings to "negative" from "stable".

CI also affirmed the "B" foreign currency issue ratings assigned to Lebanon's US\$ 3 billion global notes issued in three tranches (US\$ 1.25 billion due in 2027; US\$ 1 billion due in 2032; and US\$ 0.75 billion due in 2037) and revised the outlook to "negative" from "stable".

The "negative" outlook reflects the rating agency's concerns over the continued weakness of both the public and external finances amid the absence of an effective government that is capable of undertaking significant corrective measures and unlocking international donor support.

The "negative" outlook also takes into account the adverse effects of the political impasse on the Lebanese economy more broadly, as well as the country's vulnerability to shifts in investor sentiment.

Lebanon's ratings are fundamentally supported by adequate international liquidity, a remarkably reliable (though undiversified) investor funding base, and an unblemished record of meeting debt obligations.

The ratings are constrained by heavy indebtedness and large financing needs, a weak budget structure and limited fiscal flexibility, socio-economic challenges, the slow pace of economic and fiscal reforms, and local and regional political risks.

It is worth noting that political risks have increased since the last rating review, reflecting continuing disagreements among the major political parties and the consequent failure to form a coalition government, as per CI.

The absence of an effective government continues to weigh on Lebanon's economic prospects by derailing the reforms that are needed to reduce economic vulnerabilities and trigger the release of funds pledged at the CEDRE international donor conference earlier this year. The political impasse is also weighing on short- to medium-growth prospects and risks damaging investor confidence, according to Capital Intelligence.

The country's economic activity is expected to decline in 2018, after a slight pickup in 2017, with real output expected to expand by 1.0%, compared to 1.7% in 2017. The short- to medium-term outlook hinges on the formation of an effective coalition government, the implementation of a credible reform plan and the consequent release of the agreed donor support.

As a result of the ongoing uncertainty, CI projects that real GDP would grow by an average of 1.6% in 2019-20. The influx of refugees, who now comprise around one-third of the population, is placing significant pressure on the country's limited resources and creates significant social challenges.

The public finances remain weak, with the central government budget deficit expected to widen to 9.8% of GDP in 2018 from 6.9% in 2017 due to an increase in treasury transfers to municipalities and is expected to average 11.2% in 2019-20.

The rating agency expects the external current account deficit to remain large at around 16.4% of GDP in 2018-20. Non-resident deposits, which are a key source of funding, have continued to grow by 4.3% in the first eight months of 2018.

Lebanon's official international assets, including gold, remain at adequate levels (about US\$ 45 billion), despite declining by 4.6% in the first eight months of 2018. Capital Intelligence could revise the outlook to "stable" if a government is formed that introduces meaningful reforms to rein in the large budget deficit, improve debt dynamics, and obtain CEDRE funding.

The rating agency could lower Lebanon's ratings if refinancing risks increase due to a further weakening in the public finances combined with higher risk perceptions. Moreover, ratings could be lowered further if the government financing needs increase more than forecast and lead to higher than envisaged debt.

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#### **AVERAGE PRICE OF A NEW APARTMENT IN BEIRUT IS US\$ 594,639, SAYS RAMCO**

According to a new study by Real Estate Advisory Firm RAMCO, the average listed price of a first-floor apartment under construction in Beirut is US\$ 3,359 per SQM.

The market survey was carried out on a panel of 252 buildings under construction within Municipal Beirut. Projects under construction are on average 13-floor high, which means that the average apartment is located on a 6th floor.

Since the average size of a new apartment currently stands at 182 SQM and since the average increment per floor stands at US\$ 75 per SQM, the average value of a new apartment is of US\$ 679,588 prior to negotiation.

It is worth noting that negotiation margins vary from one developer to the next. Some developers resist market pressures and are not very flexible on pricing, while others are more flexible. Some of the highest discounts exceed 20%, as per the report.

On average, however, RAMCO estimates that discounts on listed prices vary between 10% and 15%, which means that the average value of an apartment under construction stands at US\$ 594,639 after negotiation, according to the Founder & Managing Director of RAMCO sarl.

The drop in the average value of new apartments in Beirut is due to the growing negotiation margins within the current slowdown of the real estate market of Beirut. It has also been affected by the reduction of offered sizes, which have been shrinking over time.

Between 2009 and 2017, the average size of a new apartment shrunk by 128 SQM. Apartments larger than 250 SQM have thus become a rare product.

Naturally, the most expensive neighborhoods are those located in the Beirut Central District (BCD) and along the coast, with prices that start around US\$ 5,000 per SQM.

On the contrary, in the vast majority of neighborhoods in the Capital City of Beirut, prices of apartments under construction vary between USD 2,000-3,000 per SQM, depending on the floor level, according to the report.

## CORPORATE NEWS

## BANK AUDI POSTS 20% RISE IN 9M2018 NET PROFITS TO US\$ 410 MILLION

Bank Audi's recently released Q3 financials show that consolidated assets rose by US\$ 2 billion in the first nine months of 2018 reaching US\$ 45.7 billion at end-September 2018. This corresponds to a growth of 4.5% (+2.6% on average for banks in the MENA region). At constant exchange rate relative to end-December 2017, assets would have increased by US\$ 3.7 billion in real terms, or 8.4%. The size of Bank Audi makes it the only Lebanese bank to be ranked among the top 20 Arab banking groups.

Consolidated customers' deposits amounted to US\$ 30.9 billion at end-September 2018, registering a contraction relative to end-December 2017 by US\$ 2.6 billion, of which US\$ 1.7 billion of real decrease and circa US\$ 1 billion of FX translation impact. Still, deposits of Bank Audi Lebanon increased by US\$ 450 million over the same period as deposits denominated in Lebanese Pounds rose by US\$ 934 million with some customers opting to convert their US\$ deposits to benefit from the LP rates.

Consolidated loans stood at US\$ 13.7 billion as at end-September 2018 as compared to US\$ 16.3 billion as at end-December 2017. This is equivalent to a contraction by US\$ 2.6 billion, of which US\$ 1 billion due to FX translation impact. The remaining decrease represents loan settlements and reduction of loan exposures particularly in Odea Bank amid an adverse environment. Consolidated gross doubtful loans accounted for 4.5% of gross loans as at end-September 2018 as compared to 3.5% as at end-December 2017. This movement is mostly attributed to the 16.4% contraction in gross loans. Coverage ratio of doubtful loans by specific provisions increased to 64.7% and reaches 107% when including real guarantees. In addition, collective provisions represented 1.5% of net loans.

The Bank's core equity tier one ratio (CET1) as per Basel III improved from 10.5% as at end-December 2017 to 11.4% as at end-September 2018 while total capital adequacy ratio also was reinforced from 16.9% to 18.2% over the same period, both levels comfortably above the minimum regulatory ratios of 10% and 15% respectively. Liquidity remained also solid, representing 76.4% of customer deposits, a high level when compared to regional and global benchmarks.

## BANK AUDI: KEY RATIOS

	Q3 2018	Q3 2017	Yearly variation	9M 2018	9M 2017	Yearly variation
Spread	2.9%	2.4%	0.4%	2.7%	2.4%	0.4%
Cost-to-income	40.4%	47.4%	-7.0%	43.8%	51.4%	-7.6%
Cost of risk (bps)	1.9%	1.2%	0.7%	1.2%	1.0%	0.2%
ROAA	1.3%	1.2%	0.1%	1.2%	1.0%	0.2%
ROACE	17.2%	15.2%	1.9%	15.4%	13.7%	1.7%
	Sep-18	Sep-17	Yearly variation	Dec-17	Year-to-date variation	
Loans/Deposits	44.3%	48.0%	-3.7%	48.7%	-4.4%	
Gross doubtful loans/Gross loans	4.5%	3.3%	1.2%	3.5%	1.0%	
Provision coverage (specific)	64.7%	60.4%	4.3%	60.1%	4.6%	
CET1	11.4%	10.1%	1.3%	10.5%	0.9%	
CAR ratio	18.2%	15.6%	2.7%	16.9%	1.3%	

Source: Bank Audi



Bank Audi reported in the first nine months of 2018 a 20% growth in consolidated net profits after provisions and taxes as compared to the net profits before discontinued operations in the corresponding period of 2017. Subsequently, consolidated net profits reached US\$ 410 million, despite Odea Bank allocating its operating profits in the third quarter of 2018 to loan loss provision. The contribution of entities abroad reached US\$ 132 million representing 32% of the total, of which US\$ 51 million from Bank Audi in Egypt, US\$ 42 million from Odea Bank in Turkey, US\$ 21 million from entities in Europe and US\$ 17 million from other MENA entities.

This performance results mostly from a 16.4% increase in net interest income and a 13.8% contraction in consolidated general operating expenses. Consolidated general operating expenses decreased year-on-year by US\$ 81 million, of which US\$ 12 million in Lebanon and US\$ 69 million in entities abroad. Subsequently, the cost-to-income ratio continues to improve gradually quarter on quarter reaching 43.8% in the first nine months of 2018 compared to 51.4% over the same period in 2017. Subsequently, the Group's profitability metrics strengthened. The return on average assets improved to 1.24% as at end-September 2018 as compared to 1.06% as at end-December 2017; the return on average common equity increased from 13.4% as at end-December 2017 to 15.4% as at end-September 2018.

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#### **BLOM BANK'S NET PROFITS UP 7% TO US\$ 383 MILLION IN 9M2018**

BLOM Bank published its unaudited financial results for the first nine months of 2018, saying that in a difficult environment characterized by a slowing economy and continuing political paralysis, it managed to maintain steady profitability. Net profits reached US\$ 383.0 million, higher by 7.3% from end of September 2017, with the rate of return on average common equity reaching 16.49% and the rate of return on average assets 1.50%.

Balance sheet aggregates also performed reasonably well, as per BLOM Bank. Assets rose to US\$ 35.7 billion, up by 9.7% from end-December 2017. Deposits increased to US\$ 27.1 billion, higher by 1.7%, loans stood at US\$ 7.3 billion, down by 3.0%, and shareholders' equity (close to 97% in Tier I capital) increased to US\$ 3.15 billion, higher by 4.8%.

BLOM Bank's capital adequacy ratio settled at 18.5%, primary liquidity at 80.5%, loans coverage by specific provisions and real guarantees at 132%, and the cost-to-income ratio at 35.1%.

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#### **BYBLOS BANK'S NET PROFITS DOWN 0.2% TO US\$ 114 MILLION IN 9M2018**

Byblos Bank posted net profits of US\$ 114 million for the first nine months of 2018, falling by 0.2% from the same period of 2017 despite adverse conditions. The lack of profit growth is mainly attributable to the effects of the "double taxation" implemented earlier this year, said Byblos Bank. As a result of this situation, Byblos Bank's average return on common equity, as at end-September 2018, reached 8.06%, against 8.32% recorded the previous year. Consolidated activity highlights as at end-September 2018 also shows US\$ 24.4 billion in assets, US\$ 18.4 billion in customer deposits, US\$ 5.6 billion in customer loans and US\$ 2.1 billion in total equity.

Byblos Bank's overall performance falls within the parameters of its risk-averse strategy, which the Board of Directors has pursued in the recent years in order to shield the bank against uncertain events. It involves maintaining high liquidity levels and proactively managing the bank's exposure to sovereign debt in order to mitigate pertinent risks, including that of interest-rate fluctuations.

Thanks to this approach and the other conservative measures it entails, short-term foreign currency liquidity -in the form of short-term placements with above-investment-grade institutions- accounted for 13.5% of foreign currency deposits as at end-September 2018, surpassing both internal and international benchmarks, as per a Byblos Bank statement. Furthermore, Byblos Bank's Basel III Capital Adequacy Ratio remained above 17%, exceeding the regulatory requirement of 15%. The bank also continued to carefully monitor its customer loan portfolio, maintaining adequate provisioning with a substantial coverage ratio of 90.4% for the first nine months of 2018, and keeping its non-performing loans ratio at a low 4.2%.



## CAPITAL MARKETS

### MONEY MARKET: OVERNIGHT RATE MAINTAINS STABILITY AT 5% THROUGHOUT THE WEEK

The overnight rate closed the week at its regular level of 5.0%, amid a wait-and-see attitude reigning over domestic markets, and remained unchanged throughout the week within the context of ample LP liquidity at banks. Meanwhile, no subscriptions were made in shorter-term 45-day and 60-day Certificates of Deposits.

Total resident banking deposits contracted by LP 115 billion during the week ending 18th of October 2018, as per the latest monetary aggregates released by the Central Bank of Lebanon. This was mainly driven by a LP 103 billion contraction in total LP resident deposits amid a LP 106 billion rise in LP saving deposits and a LP 209 billion decline in LP demand deposits, in addition to a LP 12 billion drop in foreign currency deposits (the equivalent of US\$ 8 million). These weekly variations compare to an average weekly decrease of LP 13 billion for total LP deposits and an average weekly rise of US\$ 66 million for foreign currency deposits since the beginning of the year 2018. Within this context, the total money supply in its largest sense (M4) contracted by LP 332 billion over the covered week, amid a LP 195 billion decrease in the currency in circulation and a LP 22 billion decrease in the non-banking sector Treasury bills portfolio.

#### INTEREST RATES

	02/11/18	26/10/18	29/12/17	
Overnight rate (official)	3.90%	3.90%	2.75%	↔
7 days rate	4.00%	4.00%	2.86%	↔
1 month rate	4.75%	4.75%	3.31%	↔
45-day CDs	4.90%	4.90%	3.57%	↔
60-day CDs	5.08%	5.08%	3.85%	↔

Source: Bloomberg

### TREASURY BILLS MARKET: SMALL NOMINAL WEEKLY DEFICIT OF LP 32 BILLION

The latest Treasury bills auction results for value date 1st of November 2018 showed that the Central Bank of Lebanon allowed banks to subscribe in full to the three-month category (offering a yield of 4.44%), to the one-year category (offering a coupon of 5.35%) and to the five-year category (offering a yield of 6.74%). In parallel, the auction results for value date 25th of October 2018 showed that total subscriptions reached LP 273 billion and were allocated as follows: LP 32 billion in the six-month category, LP 12 billion in the two-year category, and LP 229 billion in the ten-year category. In parallel, total maturities reached LP 305 billion, resulting into a weekly nominal deficit of LP 32 billion.

On a cumulative basis, total subscriptions amounted to LP 22,656 billion during the first ten months of 2018. The five-year category captured 22% of the total (the equivalent of LP 4,955 billion including LP 2,000 billion subscribed by BDL mid-August 2018 at a yield of 1%), followed by the three-year category with 19% (the equivalent of LP 4,194 billion including LP 2,000 billion subscribed by BDL mid-June 2018 at a yield of 1%), the seven-year category with 18% (the equivalent of LP 4,168 billion including LP 2,000 billion subscribed by BDL early-September 2018 at a yield of 1%), the ten-year category with 12% (the equivalent of LP 2,607 billion) and the two-year category with 10% (the equivalent of LP 2,230 billion). The three-month, six-month and one-year categories accounted for the remaining 20% (the equivalent of LP 4,503 billion). In parallel, total maturities reached LP 15,403 billion, resulting into a nominal surplus of LP 7,253 billion during the first ten months of 2018.

## TREASURY BILLS

	02/11/18	26/10/18	29/12/17	
3-month	4.44%	4.44%	4.44%	↔
6-month	4.99%	4.99%	4.99%	↔
1-year	5.35%	5.35%	5.35%	↔
2-year	5.84%	5.84%	5.84%	↔
3-year	6.50%	6.50%	6.50%	↔
5-year	6.74%	6.74%	6.74%	↔
10-year	-	7.46%	7.46%	↔
<b>Nom. Subs. (LP billion)</b>		<b>273</b>	<b>225</b>	
Short-term (3&6 mths)		32	20	
Medium-term (1&2 yrs)		12	105	
Long-term (3 yrs)		-	-	
Long-term (5 yrs)		-	100	
Long-term (10 yrs)		229	-	
<b>Maturities</b>		<b>305</b>	<b>197</b>	
<b>Nom. Surplus/Deficit</b>		<b>-32</b>	<b>28</b>	

Sources: Central Bank of Lebanon, Bloomberg

## FOREIGN EXCHANGE MARKET: GROWTH IN BDL FOREIGN ASSETS IN THE SECOND HALF OF OCTOBER

The foreign exchange market saw this week some conversions from foreign currencies to Lebanese pounds as some market players sought to ensure enough LP liquidity to settle staff expenses by end-October. As a matter of fact, conversions in favor of the local currency exceeded the demand for the US dollar, amid relative stability in the LP/US\$ interbank rate.

In parallel, the BDL's bi-monthly balance sheet ending October 31st 2018 shows that the Central Bank's foreign assets rose by US\$ 27 million in the second half of October to reach US\$ 43.1 billion, after contracting by US\$ 402 million in the first half of the same month. As such, the coverage of local currency money supply by BDL foreign assets reached 81.9%, thus reflecting the BDL's strong capacity to defend the currency peg should pressure arise.

## EXCHANGE RATES

	02/11/18	26/10/18	29/12/17	
LP/US\$	1,507.50	1,507.50	1,507.50	↔
LP/£	1,964.12	1,932.92	2,035.58	↓
LP/¥	13.37	13.46	13.39	↑
LP/SF	1,508.25	1,507.20	1,545.04	↓
LP/Can\$	1,154.20	1,147.47	1,202.34	↓
LP/Euro	1,724.13	1,715.38	1,806.59	↓

Source: Bank Audi's Group Research Department

## STOCK MARKET: RELATIVE STANDSTILL IN EQUITY PRICES

Within the context of the currently prevailing wait-and-see attitude domestically, the Beirut bourse saw a relative standstill in prices this week. The Beirut Stock Exchange price index fell by a mere 0.2% week-on-week, closing at 84.18. Five out of 14 traded stocks registered price drops, while five other stocks posted price gains and four stocks saw no price change week-on-week. Byblos Bank Preferred shares 2009 saw the sharpest price drop with -4.0% to close at US\$ 72.00, followed by Bank Audi "listed" shares with -2.4% to reach US\$ 4.78, Solidere "A" shares with -1.3% to US\$ 6.79, Solidere "B" shares with -1.0% to close at US\$

6.73 and Bank Audi Preferred shares "I" with -0.1% to US\$ 89.90. On the other hand, BLOM Bank's GDRs witnessed the highest price rise this week (+4.2% to close at US\$ 10.00), followed by Holcim shares (+2.1% to US\$ 16.50).

At the level of trading volumes, the BSE total turnover rose from US\$ 4.9 million last week to US\$ 40.2 million this week, following the exchange of 7,500,000 Bank Audi "listed" shares. Banking shares thus accounted for 97.2% of total trading activity, followed by Solidere shares with 2.6% and industrial shares with the remaining 0.2%.

On a cumulative basis, the BSE total trading value reached US\$ 264 million during the first ten months of 2018 as compared to US\$ 509 million a year earlier, moving down by 48%. As such, the total turnover ratio, measured by the annualized trading value to market capitalization, fell from 5.9% in the first ten months of 2017 to 3.4% in the first ten months of this year, spotting light on the lack of liquidity on the local stock market.

#### AUDI INDICES FOR BSE

22/1/96=100	02/11/18	26/10/18	29/12/17	
Market Cap. Index	385.73	385.22	445.80	↑
Trading Vol. Index	341.33	41.47	64.70	↑
Price Index	84.18	84.31	98.20	↓
Change %	-0.15%	-1.85%	0.35%	↓
	02/11/18	26/10/18	29/12/17	
Market Cap. \$m	9,151	9,139	10,576	↑
No. of shares traded (Exc. BT)	7,926,454	791,818	626,565	↑
Value Traded \$000 (Exc. BT)	40,231	4,877	6,187	↑
o.w. : Solidere	1,049	1,714	527	↓
Banks	39,103	3,093	5,603	↑
Others	79	70	57	↑

Sources: Beirut Stock Exchange, Bank Audi's Group Research Department

#### BOND MARKET: 20 BPS WEEKLY CONTRACTION IN FIVE-YEAR SOVEREIGN CDS SPREADS

Lebanese Eurobond prices reported further downward movements this week amid selling on behalf of foreigners tied to the Lebanese government formation status quo, albeit in relatively moderate volumes and across the sovereign curve in the absence of domestic bid. As such, the weighted average yield increased from 9.35% at the end of last week to 9.46% this week, up by 11 bps. The weighted average bid Z-spread stood at 705 bps and reported no significant change relative to the previous week's close. As to the cost of insuring debt, Lebanon's five-year CDS spreads retreated from 695-715 bps last week to 675-695 bps this week.

#### EUROBONDS INDICATORS

	02/11/18	26/10/18	29/12/17	
Total tradable size \$m	33,748	33,744	27,148	↑
o.w.: Sovereign bonds	32,498	32,494	26,123	↑
Average Yield	9.46%	9.35%	6.54%	↑
Z-Spread (bid in bps)	705	704	464	↑
Average Life	7.60	7.62	6.70	↓
Yield on US 5-year note	3.00%	2.91%	2.22%	↑

Source: Bank Audi's Group Research Department

## INTERNATIONAL MARKET INDICATORS

	02-Nov-18	26-Oct-18	29-Dec-17	Weekly change	Year-to-date change
<b>EXCHANGE RATES</b>					
YEN/\$	113.20	111.88	112.69	1.2%	0.5%
\$/£	1.297	1.283	1.351	1.1%	-4.0%
\$/Euro	1.139	1.140	1.201	-0.1%	-5.2%
<b>STOCK INDICES</b>					
Dow Jones Industrial Average	25,270.83	24,688.31	24,719.22	2.4%	2.2%
S&P 500	2,723.06	2,658.69	2,673.61	2.4%	1.8%
NASDAQ	7,356.99	7,167.21	6,903.39	2.6%	6.6%
CAC 40	5,102.13	4,967.37	5,312.56	2.7%	-4.0%
Xetra Dax	11,518.99	11,200.62	12,917.64	2.8%	-10.8%
FT-SE 100	7,094.12	6,939.56	7,687.77	2.2%	-7.7%
NIKKEI 225	22,243.66	21,184.60	22,764.94	5.0%	-2.3%
<b>COMMODITIES (in US\$)</b>					
GOLD OUNCE	1,232.89	1,233.53	1,302.80	-0.1%	-5.4%
SILVER OUNCE	14.71	14.70	16.94	0.1%	-13.1%
BRENT CRUDE (per barrel)	72.83	77.62	66.09	-6.2%	10.2%
<b>LEADING INTEREST RATES (%)</b>					
1-month Libor	2.32	2.30	1.56	0.02	0.76
US Prime Rate	5.25	5.25	4.50	0.00	0.75
US Discount Rate	2.75	2.75	2.00	0.00	0.75
US 10-year Bond	3.21	3.08	2.41	0.13	0.80

Sources: Bloomberg, Bank Audi's Group Research Department

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