The LEBANON WEEKLY MONITOR

Economy

p.2 MODERATE RISE IN FOREIGN TRADE DEFICIT YEAR-ON-YEAR

Lebanon's external sector witnessed a moderate increase in total foreign trade activity by 2.8% over the first eleven months of 2018 compared to the first eleven months of 2017, moving from US$ 20.6 billion to US$ 21.1 billion, according to trade statistics released by Lebanon's Customs Authority.

Also in this issue

Surveys

p.5 NEW GOVERNMENT REDUCES NEAR-TERM POLITICAL UNCERTAINTIES SUBSTANTIALLY, SAYS GOLDMAN SACHS

The formation of a government in Lebanon reduces near-term political uncertainties substantially and should be supportive of Lebanese Eurobonds in the short term, says GS.

Also in this issue

Corporate News

p.7 BANK AUDI REPORTS NET PROFITS OF US$ 501 MILLION IN 2018, RISING BY 7.9% FROM 2017

Bank Audi's consolidated assets grew by 8% in nominal terms driven mainly by Lebanese entities. They rose from US$ 43.8 billion as at end-December 2017 to US$ 47.2 billion as at end-December 2018.

Also in this issue

Markets In Brief

p.9 NOTICEABLE RECOVERY IN LEBANESE CAPITAL MARKETS FOLLOWING CABINET FORMATION

Following the formation of a new cabinet and awaiting the necessary reforms to benefit from "CEDRE" resolutions, Lebanon's capital markets witnessed this week a noticeable recovery. The overall domestic political settlement contributed to holding back conversions in favor of foreign currencies on the FX market, while the demand for the Lebanese pound has intensified towards the end of January to pay employees' salaries. Under these favorable conditions, the local currency liquidity returned to the money market, bringing down the overnight rate to a low level of 4% after hitting record highs in the previous two weeks. On the Eurobond market, internationals became net buyers this week, showing a heavy bid across the yield curve. This resulted into healthy price gains of up to 6.25 pts week-on-week. The weighted average bond yield fell by 110 bps to 9.15%. Lebanon's five-year CDS spreads contracted further by 75 bps to 710 bps.

LEBANON MARKETS: WEEK OF JANUARY 28 - FEBRUARY 03, 2019

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

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ECONOMY

MODERATE RISE IN FOREIGN TRADE DEFICIT YEAR-ON-YEAR

Lebanon's external sector witnessed a moderate increase in total foreign trade activity by 2.8% over the first eleven months of 2018 compared to the first eleven months of 2017, moving from US$ 20.6 billion to US$ 21.1 billion, according to trade statistics released by Lebanon's Customs Authority. This relatively modest rise in trade activity was the result of increasing imports by 2.5% and exports by 4.3%. Accordingly, the trade deficit went up by 2.2%, moving from US$ 15.4 billion to US$ 15.7 billion between the two periods.

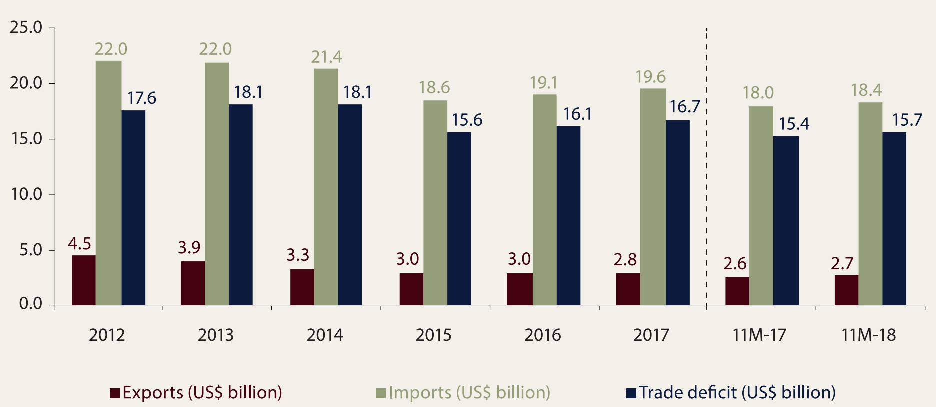
In parallel and within the context of a contraction in financial inflows to Lebanon and a positive growth in trade deficit over the first eleven months of 2018 relative to the same period of 2017, the balance of payments recorded a relatively rising deficit of US$ 4.1 billion over the period. The latter was triggered by a decline of US$ 3.0 billion in banks' net foreign assets, coupled with a decline in BDL's net foreign assets by US$ 1.1 billion over the first eleven months of the year.

Going further into details, total exports reached US$ 2.7 billion over the first eleven months of 2018, against US$ 2.6 billion in the first eleven months of 2017. It is worth mentioning that exports through the Hariri International Airport went up by 8.1% and those through the Port of Beirut witnessed an increase by 4.6% over the same period, while land exports through Syria decreased by 22.2% moving from US$ 225 million to US$ 175 million.

The analysis of exports by major products suggests that exports of plastic products reported a yearly growth of 19.9% over the first eleven months of 2018, followed by metals and metal products with 18.0%, chemical products with 12.3% and jewelry with 10.8%. In parallel, exports of food products declined the most among the major products with a drop of 15.8%, followed by papers and paper products with a decline of 0.8% between the two periods.

The breakdown of exports by country of destination suggests that the most significant increase was reported in exports to UAE with 83.0%, followed by exports to Qatar with 38.6%, exports to Turkey with 19.4% and to Egypt with 8.6%. In parallel, exports to South Africa reported a 44.1% decline, followed by Syria with -20.1%, Iraq with -15.7%, Kuwait with -15.3% and Saudi Arabia with -12.8% over the first eleven months of 2018 relative to the same period of 2017.

LEBANON'S FOREIGN TRADE ACTIVITY



Source: Lebanese customs

The breakdown of imports by major products suggests that the most significant increase was reported in jewelry with 35.7%, electrical equipments with 21.5%, livestock and animal products with 17.4%, chemical products with 4.2% and vegetable products with 1.4%. In parallel, imports of transport vehicles reported a 10.5% decline, followed by cement and stone products with 8.0% and mineral products with 5.4% over the first eleven months of 2018 relative to the same period of 2017.

The breakdown of imports by country of origin suggests that the most significant increase was reported in imports from UAE with 71.5% over the period, KSA with 35.4%, Switzerland with 34.5%, Greece with 26.2%, Turkey with 22.5% and China with 10.1%. In parallel, imports from Russia reported a 20.4% decline, followed by Italy with -10.1%, France with -7.4% and USA with -4.2% over the first eleven months of 2018 relative to the same period of 2017.

NUMBER OF BUILT AND UNBUILT REAL ESTATE SALES TRANSACTIONS DOWN BY 18.0% IN 2018

Lebanon's real estate sector encountered a relatively unfavorable performance in 2018, seeing decreases of major activity indicators, namely property transactions.

More specifically, the country's total built sales transactions fell by 21.1% in 2018 and the total number of unbuilt sales transactions retreated by 14.5% annually in the aforementioned year.

Moving on to real estate sales transactions by region, Beirut witnessed a fall of 8.8% in the number of built sales transactions and a deterioration of 11.0% in the number of unbuilt sales transactions.

Furthermore, Baabda saw decreases of 22.3% and 17.4% in the number of built and unbuilt sales transactions respectively. In Metn, the number of built real estate transactions retreated by 17.2% annually in 2018 and the number of unbuilt real estate transactions contracted by 22.1%.

Last but not least, combining all other regions including Jounieh, the North of Lebanon, Saida, Nabatieh and Zahle, their number of built transactions declined by 25.4% annually in 2018.

Total unbuilt real estate transactions in the aforementioned regions fell by 13.3% from the previous year.

NUMBER OF BUILT/UNBUILT REAL ESTATE SALES TRANSACTIONS BY REGION

	2017		2018	
	Built	Unbuilt	Built	Unbuilt
Beirut	4,703	591	4,289	526
Baabda	9,830	5,623	7,635	4,645
Metn	6,314	2,221	5,228	1,731
Jounieh	4,145	3,374	3,324	2,534
North 1	3,491	2,090	2,477	1,865
North 2	1,838	4,227	1,393	3,577
Saida	3,501	4,732	2,752	4,391
Nabatieh	2,185	4,723	1,402	3,921
Zahle	1,444	7,078	1,032	6,444
Total	**37,451**	**34,659**	**29,532**	**29,634**

Source: Directorate General of Land Registry and Cadastre

CABINET FORMATION MIGHT FACILITATE ACCESS TO CEDRE PLEDGES, AS PER IIF

According to the IIF, developments in 2018 and early 2019 highlighted the significant vulnerabilities of the Lebanese economy. The heavy public debt overhang, large fiscal and current account deficits, and reliance on deposit inflows for deficit financing remain the core vulnerabilities. The risks associated with these imbalances have increased in recent years in the face difficult external environment.

However, news of formation of a new Cabinet at the end of January after eight months of paralysis may facilitate Lebanon's access to the US$ 11 billion of concessional loans and grants that were promised by the international community at the CEDRE conference to develop the country's infrastructure. Yet, such lending is contingent on the implementation of deep fiscal and structural reforms to improve long-term fiscal sustainability, rebuild confidence, and foster higher growth.

According to the report, Lebanon's economic conditions worsened in in 2018. IIF estimates, based on high frequency indicators, suggest that real GDP growth remained slightly below 1%. In the wake of continued political paralysis and absence of reforms, private consumption slowed, and private investment declined, though exports recovered modestly. On the production side, construction and real estate activity, which were the main drivers of growth in the past, declined sharply in 2018.

On another note, private sector credit declined by about 2%; however, total deposits grew by US$ 7.5 billion or by 3.8% in 2018. Deposits in Lebanese pound increased by 2%, while deposits in foreign currency rose by 6.4%. The sharp rise in interest rates on deposits in Lebanese pounds and US dollars has contributed to stabilize the situation. Nonresident deposits grew by about 10%. Deposit dollarization has increased from 66% in 2017 to 71% in 2018, still well below the highs reached in the 1990s and 2000s. In 2018, Banque du Liban (BdL) sold Eurobonds in the amount of US$ 5.5 billion to local banks. The bonds were part of a swap operation between BdL and the Ministry of Finance to reduce the debt servicing cost and increase the foreign currency assets of the Central Bank.

Moreover, Lebanon's fiscal position deteriorated markedly in 2018, with the overall government deficit widening to 11% of GDP. The primary driver was an estimated 18% increase in total spending, particularly on the wage bill, as the government adjusted the salary scale and hired thousands of new workers, mostly in municipalities, in the run-up to the May 2018 parliamentary elections. In contrast, total revenues increased only by 2.5% based on the available figures from the authorities for the first 9 months of 2018. The increase in the VAT rate from 10 to 11% and other revenue measures did not generate enough additional revenues to offset the sharp fall in taxes from property, subdued revenues from taxes on goods and international trade, and a sharp decline in bank profitability following a one-off bonanza in 2017 from income associated with the BdL's financial operations, as per the same source.

With regards to this, the authorities appear now to recognize the importance of committing to meaningful and widespread reforms to improve long-term fiscal sustainability, rebuild confidence, and foster higher growth. Recent developments, including a downgrade by one rating agency, the sharp increase in CDS spreads, and deceleration in growth of deposits, acted as a wakeup call. Yet with a government only now taking shape eight months after parliamentary elections, the scope of conceivable reforms for 2019 remains unclear, and questions are mounting about the ability of the country to harness funds pledged by the international community for long-needed infrastructure projects, as per the IIF.

It is noteworthy that resilience in the face of financial strain is nothing new for Lebanon. While the country faced several episodes of severe financial pressure in the past 30 years, triggered by political events and external shocks, it continued to service its debt on the back of implicit support from international donors, the priority of up-holding its track record of having never defaulted on foreign currency debt and deposits, a creditor base dominated by domestic commercial banks and the BdL and a loyal and vibrant diaspora.

The authorities' commitment to staving off default is no surprise, given their motivation to avoid the long-lasting costs of default (including loss of market access, increase in borrowing costs, and a drop in economic activity) and their consistent track record of avoiding default even in more dire environments.

SURVEYS

NEW GOVERNMENT REDUCES NEAR-TERM POLITICAL UNCERTAINTIES SUBSTANTIALLY, SAYS GOLDMAN SACHS

The formation of a government in Lebanon reduces near-term political uncertainties substantially and should be supportive of Lebanese Eurobonds in the short term, says GS.

Looking ahead, Lebanon's immediate challenge is to reduce external vulnerabilities. Goldman Sachs expects an external funding gap of US$ 11 billion this year, which should be covered by a combination of Gulf support, possible rollover of Eurobonds in the market, and BdL reserves/financial engineering operations.

External financing would, however, be sensitive to headline risk, and GS believes the government has the opportunity to capitalize on the momentum created by the recent positive headlines in the coming weeks and months in order to improve prospects in this regard.

The medium to long term outlook remains more challenging, as per the report. With a low likelihood that the current account deficit would be substantially narrowed in the medium term, Goldman Sachs believes capital inflows (including remittances/non-resident deposits) would need to rise substantially in order to reduce the external financing gap in 2020 and beyond.

Setting public finances on a more sustainable footing also remains a key challenge. To do so would require a fiscal adjustment of around 8% of GDP. Reducing the requisite fiscal adjustment to more achievable levels would require either a sharp reduction in interest rates or a substantial pick-up in growth prospects, both of which, GS believes, may be possible but are largely outside the control of policy-makers, and are highly dependent on regional economic and political developments.

MARKET SENTIMENT IMPROVED SIGNIFICANTLY IN PAST TWO WEEKS AMIDST NEW CABINET FORMATION, SAYS JPMORGAN

Reflecting Lebanon's fragmented political framework, the new cabinet represents a fine balancing act among various parties, but it comes with a mandate for tackling the country's urgent economic problems.

Among the first orders of business for the new cabinet would be to approve an economic plan to lower the budget deficit estimated at about 10% of GDP last year. Given that a draft plan is ready, JPMorgan expects cabinet approval to be quick and, given the broad representation of parties in the cabinet, passage of these reforms is unlikely to face opposition in Parliament, which could derail implementation.

The report also expects the economic plan to include fiscal measures to reduce the deficit by 1% of GDP per year for the next five years through spending restraint and electricity tariff hikes. With transfers to Electricite du Liban amounting to almost 3% of GDP last year, JPMorgan believes there should be scope for meaningful fiscal savings.

JPMorgan understands the authorities are also considering reforms in the telecom sector. They are also expected to provide greater detail in terms of their public debt strategy for this year and beyond, but this is expected this to be akin to the debt replacement strategies previously conducted. These measures should be sufficient to gradually lower debt to GDP with debt to GDP peaking at 159% by 2021 and declining to 151% by 2025 under plausible assumptions, as per the report. JP Morgan awaits the announcement of the details of reforms before changing its fiscal projections.

It is worth noting that Market sentiment has improved significantly in the past two weeks, but large economic imbalances would keep Lebanon vulnerable to swings in risk appetite and altering the uncertain outlook would hinge on sustained reforms. Boosted by improved sentiment with the end of political gridlock, Lebanon's 10Y Eurobond yields have declined to 9.4%, down by 230bps since mid-January. However, confidence remains fragile and vulnerable to political or economic shocks. JP Morgan expects growth to remain subdued at 1.7% this year, marginally better than its 2018 estimate of 1.1%, which was curiously weak in a year of fiscal stimulus.

While fiscal restraint would have a dampening effect, JPMorgan believes activity could be boosted by the gradual unlocking of US$ 11 billion (20% of GDP) in CEDRE conference pledges and the stabilization of Syria following the opening of land trade routes to the Gulf. At the same time, Gulf visitors could begin to return in larger numbers to Lebanon, bringing investment into the real estate sector. Notwithstanding the significant challenges facing the Lebanese economy, the formation of a cabinet and reforms should continue to support sentiment. Over time, reconstruction of Syria and Iraq as well as potential gas finds in the Mediterranean could boost the economy and reduce debt concerns.

Finally, a weaker US dollar could provide some respite and reduce external imbalances. Despite geopolitical tensions and economic challenges, JPMorgan believes that downside risks have receded for now and that the recent confidence crisis has provided momentum to reform.

FORMATION OF CABINET HELPS AUTHORITIES RESTORE DOMESTIC CONFIDENCE AND PROVIDES OPPORTUNITY TO ADDRESS MACRO IMBALANCES, SAYS BAML

The formation of a Cabinet after eight months of impasse helps authorities restore domestic confidence and provides an opportunity to address macro imbalances, as per Bank of America Merril Lynch (BAML). The report assumes some fiscal reforms are likely to be implemented going forward.

However, given challenging macro fundamentals, ambitious reforms and a pick-up in deposit growth are likely to be needed to safeguard medium-term economic and financial stability. The Cabinet formation is important due to donor funding requiring institutional continuity, the end to policy paralysis and, the urgent need to implement reforms after the restructuring crisis comments.

The Prime Minister suggested that the Cabinet's priorities would be expediting needed economic reforms, as per the report. Authorities are likely to aim to pass the 2019 budget over the next few weeks, but it is unlikely that material fiscal reform can be incorporated into it already. A second hydrocarbon offshore licensing round is also due to be launched in early 2019.

The Cabinet could then aim to formulate and approve a broad economic reform plan over the next several months at the earliest, as per BAML. Authorities have indicated an annual fiscal consolidation effort target of 1 ppt of GDP for the next five years. Reforms include reintroducing taxes on petroleum products, raising the VAT rate, and raising electricity tariffs, none of which benefits from political consensus currently. Bank of America Merril Lynch expects a rescheduling of domestic debt or other schemes similar to Paris II measures to feature among actions to be considered to lower interest costs for the government.

The reform plan would be subsequently submitted to donors at bi-annual meetings, as per the report. The aim would be to unlock CEDRE donor funds for the first phase of the Capital Investment Program (CIP), consisting of US$ 10.8 billion over six years (US$ 1.8 billion annually). The largest CIP sector projects (electricity, waste/wastewater, and transport) appear to be import intensive, which could limit net FX inflows.

CORPORATE NEWS

BANK AUDI REPORTS NET PROFITS OF US$ 501 MILLION IN 2018, RISING BY 7.9% FROM 2017

Bank Audi's consolidated assets grew by 8% in nominal terms driven mainly by Lebanese entities. They rose from US$ 43.8 billion as at end-December 2017 to US$ 47.2 billion as at end-December 2018, increasing by US$ 3.5 billion. The latter was primarily driven by a 21% assets growth in Lebanon within a 13.5% contraction of assets outside Lebanon.

Consolidated customers' deposits amounted to US$ 32 billion at end-December 2018 compared to US$ 33.5 billion as at end-December 2017, decreasing by US$ 1.5 billion during the year. Still, deposits of Bank Audi Lebanon increased by US$ 642 million (a growth of 3.2%) over the same period, while deposits of Bank Audi in Egypt reported a year-on-year increase by US$ 607 million, i.e. a growth of 22.9%. Hence, the contraction of consolidated deposits stems principally from Odea Bank in Turkey, as a result of the adopted deleveraging strategy driving a real decrease in deposits by US$ 1.7 billion within a FX translation impact of US$ 0.6 billion.

Bank Audi's consolidated loan portfolio shrank by US$ 3 billion to US$ 13.3 billion as at end-December 2018, of which US$ 2.3 billion of real decrease and US$ 0.7 billion due to FX translation impact. Amid a persisting challenging environment in Lebanon and Turkey, Management adopted a policy focusing on improving efficiency and reducing risk, resulting mainly in net loan settlements and a reduction of loan exposures of US$ 1.7 billion in Odea Bank in Turkey. In Egypt, where a stronger macroeconomic situation supports business prospects, Bank Audi Egypt registered an increase in its loan portfolio by US$ 101 million.

As at end-December 2018, gross NPLs represented 5.5% of gross loans post adoption of IFRS 9 as compared to 3.9% as at end-December 2017. This 1.6% increase is accounted to the extent of 1% by the contraction in gross loans by 17.7% over the year. The coverage ratio of NPLs by specific provisions increased to 63%, reaching 107% when including real guarantees. Collective provisions on loans amounted to US$ 312 million at end-December 2018, representing 2.4% of net loans. Total collective provisions as per IFRS 9 amounted to US$ 384 million, representing 1.9% of consolidated credit risk-weighted assets and rising to 2.5% when accounting the excess provisions booked under provisions for risk and charges. The bank's core equity Tier One ratio (CET1) as per Basel III stood at 11.3% as at end-December 2018, compared to 10.5% as at end-December 2017 and 10% minimum regulatory ratio. Capital adequacy ratio also

BANK AUDI: KEY RATIOS

	Q4 2018	Q4 2017	Yearly Variation	2018	2017	Yearly Variation
Spread	2.3%	2.5%	-0.2%	2.6%	2.4%	0.2%
Cost/income	54.7%	50.6%	4.1%	46.3%	51.2%	-4.9%
Cost of risk (bps)	1.5%	0.5%	1.0%	1.3%	0.9%	0.4%
ROAA	0.8%	1.1%	-0.3%	1.1%	1.1%	0.1%
ROACE	9.7%	13.5%	-3.8%	14.0%	13.4%	0.6%
	Dec-18	Dec-17	Yearly Variation			
Loan/deposits	41.5%	48.7%	-7.2%			
Gross NPLs/gross loans	5.5%	3.9%	1.6%			
Provision coverage (specific)	63.0%	54.7%	8.3%			
Collective provisions/net loans	2.4%	1.2%	1.2%			
CET1	11.3%	10.5%	0.8%			
CAR ratio	18.8%	16.9%	1.8%			

Source: Bank Audi

improved from 16.9% to 18.8% over the same period. Primary liquidity represented 80.4% of customers' deposits at year-end 2018, with 9.4% of foreign currency deposits placed with correspondent banks.

Bank Audi reported US$ 501 million of recurrent consolidated net profits after provisions and taxes in 2018, rising by 7.9% compared to the net profits before discontinued operations in 2017. Consolidated general operating expenses decreased year-on-year by US$ 81 million, driving an improvement in the cost to income ratio from 51.2% in 2017 to 46% in 2018. In parallel, loan loss provisions of US$ 176 million consumed 21.9% of pre-provisions pre-tax profits compared to 19.5% in 2017.

Net income represented 1.12% of average assets as at end-December 2018 as compared to 1.06% as at end-December 2017. Net common income represented 14% of average common equity compared to 13.4% as at end-December 2017.

NET PROFITS OF BLOM BANK UP BY A YEARLY 5.2% IN 2018

BLOM Bank posted net profits of US$ 510.4 million in 2018, edging up by 5.2% from US$ 485.3 million in 2017.

Net interest income amounted to US$ 842.7 million in 2018, up by 14.2% from US$ 737.6 million recorded in the previous year. Net fee and commission income rose from US$ 136.5 million in 2017 to reach US$ 142.1 million in 2018.

Net operating income improved by 0.2% to reach US$ 1.0 billion in 2018. Total operating expenses went down by 5.8% year-on-year to US$ 384.3 million in 2018, of which personnel charges reached US$ 231.1 million, 9.7% higher than those reported in 2017, and general and other operating expenses recorded US$ 127.0 million in 2018, 12.3% higher than those in the previous year. Provisions for impairment loss of goodwill was nil last year against a negative figure in 2017.

BLOM Bank's total assets amounted to US$ 36.7 billion at end-2018 from US$ 32.5 billion at end-2017. Net loans and advances stood at US$ 7.2 billion at end-2018, declining from US$ 7.5 billion at end-2017. Customers' deposits totaled US$ 26.9 billion at end-2018, up from US$ 26.6 billion at end-2017. Total shareholders' equity rose by 8.8% to US$ 3.3 billion at end-2018.

BYBLOS BANK'S TOTAL ASSETS UP TO US$ 25.0 BILLION AT END-2018

Byblos Bank posted net profits of US$ 165 million for 2018, a decrease of 3.3% from 2017 but acceptable given the adverse economic conditions, as per a Byblos Bank statement. The lack of profit growth is attributable to several factors, including the effects of the first full accounting year under the "double taxation" on banks, the opportunity cost of maintaining high liquidity, as well as the increase in provisions allocated for possible loan losses due to the deteriorating financial and economic environment. As a result, average return on common equity stood at 8.76% as at end-December 2018, down from 9.35% the previous year, as per a statement by the bank.

Short-term foreign currency liquidity – in the form of short-term placements with above-investment-grade institutions – accounted for 16.51% of foreign currency deposits as at end-December 2018.

Furthermore, the bank's Basel III Capital Adequacy Ratio remained at over 17%, once again well above the minimum regulatory requirement of 15%, as per the same source.

Byblos Bank also continues to efficiently manage its costs, which enabled it to reduce its ratio of operating expenses to average assets to 0.98% as at end-2018, compared to 1.06% for 2017, as per the same source.

The bank's total assets increased by 10.3% from US$ 22.7 billion at end-2017 to US$ 25.0 billion at end-2018. Customers' deposits rose from US$ 18.0 billion at end-2017 to US$ 18.5 billion at end-2018. Loans and advances remained nearly unchanged standing at US$ 5.4 billion at end-2018.

Furthermore, Byblos Bank ensured sufficient loan provisioning for the year 2018, with a coverage ratio of 87.0% against a non-performing loan ratio of 4.3%.

CAPITAL MARKETS

MONEY MARKET: OVERNIGHT RATE AT 4% AS LP LIQUIDITY RETURNS TO MARKET

Following the cabinet formation and the resulting improved sentiment on the foreign exchange market that has helped to hold back demand for US dollar, and given that the CNSS has redeposited its funds in the Lebanese banking sector, the local currency liquidity returned to the money market this week. As a result, the overnight rate closed the week at a low level of 4%, after reaching a peak level of 75% at the beginning of the year 2019.

In parallel, the latest monetary aggregates released by the Central Bank of Lebanon for the week ending 17th of January 2019 showed that total resident banking deposits have slightly contracted before the current overall domestic political settlement and the formation of a new cabinet. In details, total resident banking deposits contracted by LP 720 billion over the covered week.

INTEREST RATES

	01/02/19	25/01/19	28/12/18	
Overnight rate (official)	3.90%	3.90%	3.90%	⇔
7 days rate	4.00%	4.00%	4.00%	⇔
1 month rate	4.75%	4.75%	4.75%	⇔
45-day CDs	4.90%	4.90%	4.90%	⇔
60-day CDs	5.08%	5.08%	5.08%	⇔

Source: Bloomberg

TREASURY BILLS MARKET: NOMINAL WEEKLY DEFICIT OF LP 290 BILLION

The Treasury bills auction results for value date 24th of January 2019 showed that total subscriptions reached LP 91 billion and were distributed as follows: LP 7 billion in the three-month category (offering a yield of 5.30%), LP 13 billion in the one-year category (offering a yield of 6.50%) and LP 71 billion in the five-year category (offering a coupon of 8.0%). In parallel, maturities totaled LP 381 billion, resulting into a nominal weekly deficit of LP 290 billion.

In parallel, the latest Treasury bills auction results for value date 31st of January 2019 showed that the Central Bank of Lebanon has allowed banks to subscribe in full to the six-month category (offering a yield of 5.85%), the three-year category (offering a yield of 7.50% against 6.50% previously) and the seven-year category (offering a coupon of 9.0%).

TREASURY BILLS

	01/02/19	25/01/19	28/12/18	
3-month	5.30%	5.30%	4.44%	⇔
6-month	5.85%	5.85%	4.99%	⇔
1-year	6.50%	6.50%	5.35%	⇔
2-year	7.00%	7.00%	5.84%	⇔
3-year	7.50%	7.50%	6.50%	⇔
5-year	8.00%	8.00%	6.74%	⇔
7-year	9.00%	-	7.08%	
Nom. Subs. (LP billion)		**91**	**98**	
Short -term (3&6 mths)		7	4	
Medium-term (1&2 yrs)		13	11	
Long-term (3 yrs)		-	-	
Long-term (5 yrs)		71	83	
Maturities		**381**	**124**	
Nom. Surplus/Deficit		**-290**	**-26**	

Sources: Central Bank of Lebanon, Bloomberg

FOREIGN EXCHANGE MARKET: IMPROVED SENTIMENT ON FX MARKET FOLLOWING CABINET FORMATION

The formation of a new government resulted into an improved sentiment on the foreign exchange market this week, and contributed to boosting confidence and spreading an overall relaxed mood. These favorable conditions helped to hold off demand for US dollar on the currency trading market after witnessing a wave of net foreign currency conversions during the months-long cabinet formation gridlock. Concurrently, some market participants converted their foreign currency holdings into LP holdings over this week, as they sought to secure enough local currency liquidity at hand to pay employees' salaries at end-January 2019.

In parallel, the Central Bank of Lebanon's latest bi-monthly balance sheet ending 31st of January 2019 showed that BDL's foreign assets reached US$ 39.3 billion at the end of the month, covering 76.2% of LP money supply and 23.3 months of imports.

EXCHANGE RATES

	01/02/19	25/01/19	28/12/18	
LP/US$	1,507.50	1,507.50	1,507.50	⇔
LP/£	1,966.68	1,972.41	1,905.78	↑
LP/¥	13.84	13.73	13.66	↓
LP/SF	1,518.43	1,513.40	1,529.68	↓
LP/Can$	1,147.09	1,131.33	1,107.48	↓
LP/Euro	1,728.80	1,708.15	1,724.73	↓

Source: Bank Audi's Group Research Department

STOCK MARKET: SHY WEEKLY PRICE GAINS ON THE BSE

Activity was sluggish on the Beirut Stock Exchange over this week. The total turnover was restricted to US$ 2.1 million as compared to US$ 4.2 million in the previous week and an average weekly trading value of US$ 13.3 million since the beginning of the year 2019. Solidere shares accounted for 49.2% of activity, followed by the banking shares with 49.0%, and the industrial & trading shares with 1.7%.

As to prices, the BSE price index reversed this week the downward trajectory that was prevailing since the beginning of the year 2019, posting shy price increases of 0.7% to close at 81.40. This was mainly supported by price gains in Solidere shares and one banking share. Three out of ten traded stocks registered price rises, while five stocks recorded price falls and two stocks saw no price change week-on-week. Solidere "A" share prices topped the gains' list, surging by 4.5% to US$ 6.71, followed by Solidere "B" share prices with + 2.7% to US$ 6.54, and Byblos Bank's "listed" shares with +0.7% to reach US$ 1.36. On the other hand, BLOM's "listed" share price declined by 0.5% to US$ 9.05. BLOM's GDR price fell by 1.2% to US$ 8.89. BEMO's "listed" share price dropped by 1.3% to US$ 1.55. Bank of Beirut Preferred "H" share price edged down by 0.2% to US$ 24.95. Also, Holcim Liban's share price closed 1.1% lower at US$ 15.33.

AUDI INDICES FOR BSE

22/1/96=100	01/02/19	25/01/19	28/12/18	
Market Cap. Index	372.97	370.57	384.30	↑
Trading Vol. Index	17.65	35.33	227.09	↓
Price Index	81.40	80.87	83.87	↑
Change %	0.65%	-1.84%	-0.70%	↑
	01/02/19	**25/01/19**	**21/12/18**	
Market Cap. $m	8,848	8,791	9,117	↑
No. of shares traded (Exc. BT)	293,712	517,021	4,241,140	↓
Value Traded $000 (Exc. BT)	2,079	4,165	21,393	↓
o.w. : Solidere	1,023	1,222	1,208	↓
Banks	1,020	2,943	20,107	↓
Others	36	0	78	↑

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

BOND MARKET: LEBANESE BOND YIELDS AT LOWEST LEVELS SINCE END-AUGUST 2018

The formation of a new cabinet has had positive repercussions on the Lebanese Eurobond market week-on-week, as it contributed to boosting investor confidence and resulted into a trend reversal. International institutional investors who were net sellers over the months-long cabinet formation stalemate became heavy net buyers over this week. This triggered a strong price rally across the bond yield curve, with Lebanese sovereigns maturing between 2019 and 2037 registering price gains of up to 6.25 pts week-on-week, adding to last week's price increases that were mainly driven by gulf support pledges.

Within this context, the weighted average yield saw significant contractions week-on-week, moving from 10.25% at the end of last week to 9.15%, which is its lowest level since end-August 2018. Concurrently, the weighted average bid Z-spread shrank from 799 bps last week to 691 bps this week. As to the cost of insuring debt, Lebanon's five-year CDS spreads saw further contractions this week, moving from 775-795 bps last week to 700-720 bps, in a clear sign of improved market perception for sovereign risks at large following the cabinet formation.

EUROBONDS INDICATORS

	01/02/19	25/01/19	28/12/18	
Total tradable size $m	32,214	32,214	32,214	↔
o.w.: Sovereign bonds	30,964	30,964	30,964	↔
Average Yield	9.15%	10.25%	9.95%	↓
Z-Spread (bid in bps)	691	799	764	↓
Average Life	7.73	7.74	7.83	↓
Yield on US 5-year note	2.46%	2.57%	2.61%	↓

Source: Bank Audi's Group Research Department

INTERNATIONAL MARKET INDICATORS

	01-Feb-19	25-Jan-19	31-Dec-18	Weekly change	Year-to-date change
EXCHANGE RATES					
YEN/$	109.49	109.54	109.61	0.0%	-0.1%
$/£	1.308	1.320	1.275	-0.9%	2.5%
$/Euro	1.146	1.141	1.147	0.4%	-0.1%
STOCK INDICES					
Dow Jones Industrial Average	25,063.89	24,737.20	23,327.46	1.3%	7.4%
S&P 500	2,706.53	2,664.76	2,506.85	1.6%	8.0%
NASDAQ	7,263.87	7,164.86	6,635.28	1.4%	9.5%
CAC 40	5,019.26	4,925.82	4,730.69	1.9%	6.1%
Xetra Dax	11,180.66	11,281.79	10,558.96	-0.9%	5.9%
FT-SE 100	7,020.22	6,809.22	6,728.13	3.1%	4.3%
NIKKEI 225	20,788.39	20,773.56	20,014.77	0.1%	3.9%
COMMODITIES (in US$)					
GOLD OUNCE	1,317.98	1,305.25	1,282.49	1.0%	2.8%
SILVER OUNCE	15.91	15.77	15.50	0.9%	2.7%
BRENT CRUDE (per barrel)	62.75	61.64	53.80	1.8%	16.6%
LEADING INTEREST RATES (%)					
1-month Libor	2.51	2.50	2.50	0.01	0.01
US Prime Rate	5.50	5.50	5.50	0.00	0.00
US Discount Rate	3.00	3.00	3.00	0.00	0.00
US 10-year Bond	2.68	2.76	2.68	-0.08	0.00

Sources: Bloomberg, Bank Audi's Group Research Department