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The MENA WEEKLY MONITOR

Economy

p.2 IIF SAYS HIGHER OIL PRICES MAY RAISE COMPLACENCY IN MENA

In its latest report on 14 economies in the Middle East and North Africa region, the Institute of International Finance said that oil prices are likely to remain high through end-2019, on concerns of supply disruptions in Venezuela and the impact of US sanctions on Iran.

Also in this issue

Surveys

p.5 CAIRO'S REAL ESTATE MARKET REMAINED STABLE DURING Q3, AS PER JLL

The Cairo real estate market remained stable during Q3 as demand typically shifted to coastal areas during the summer season, as per Jones Lang Lasalle (JLL).

Also in this issue

Corporate News

p.7 DAFZA STARTS WORK ON US$ 871 MILLION DUBAI COMMERCITY

Dubai Airport Freezone Authority (Dafza) and UAE developer Wasl Asset Management Group said early works commenced on their AED 3.2 billion (US$ 871 million) Dubai CommerCity project and the piling and shoring will begin next year.

Also in this issue

Markets In Brief

p.9 REGIONAL CAPITAL MARKETS UNDER PRESSURE ON EMERGING MARKET ROUT

MENA equity markets came under downward price pressures this week, tracking a wide sell-off mood in emerging markets, and driven by an oil price slump and some unfavorable third quarter financial results. This was reflected by a 3.6% drop in the S&P Pan Arab Composite Index. In parallel, regional bond markets continued to see negative price movements, mainly tracking weakness in emerging markets after the US Federal Reserve lifted late September its key interest rate for the third time this year, in addition to concerns over China's economic growth amid deepening trade war between the US and China. This was reflected by an 8.6% expansion in the Z-spread based Audi compiled MENA bond index.

MENA MARKETS: WEEK OF OCTOBER 07 - OCTOBER 13, 2018

Stock market weekly trend	↓	Bond market weekly trend	↓
Weekly stock price performance	-3.6%	Weekly Z-spread based bond index	+8.6%
Stock market year-to-date trend	↑	Bond market year-to-date trend	↓
YTD stock price performance	+3.9%	YTD Z-spread based bond index	+11.7%

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ECONOMY

IIF SAYS HIGHER OIL PRICES MAY RAISE COMPLACENCY IN MENA

In its latest report on 14 economies in the Middle East and North Africa region (Saudi Arabia, UAE, Qatar, Kuwait, Oman, Bahrain, Algeria, Iran, Iraq, Egypt, Jordan, Lebanon, Morocco and Tunisia), the Institute of International Finance (IIF) said that oil prices are likely to remain high through end-2019, on concerns of supply disruptions in Venezuela and the impact of US sanctions on Iran. The IIF has revised up its forecast for Brent crude to an average of US$ 74/bbl in 2018 and US$ 72/bbl in 2019.

MENA oil exporters, except Iran, are experiencing modest economic recovery, supported by higher oil prices and production levels, and fiscal stimulus. The IIF expects overall real GDP growth to accelerate from 0.7% in 2017 to 1.7% in 2018 and 2% in 2019. In the six GCC countries, the IIF expects real GDP to shift from a small contraction in 2017 to a growth of 2.6% in 2018 driven by higher oil production and fiscal stimulus in Saudi Arabia. However, lackluster credit growth indicates sluggish recovery of the private sector.

A tighter monetary policy, in the context of the pegged exchange rates in the GCC, will offset some of the gains from an expansionary fiscal stance. Monetary tightening and the rise of borrowing costs come at a time when credit growth remains subdued and private sector economic activity is weak, particularly in Saudi Arabia.

The 37% rise in average oil prices in 2018 is also leading to a market turnaround in external balances. The combined current account surplus of the 10 MENA oil exporters is projected to rise by about US$ 143 billion to US$ 190 billion in 2018, of which the GCC account for 90% of the total surplus, as per the IIF. The fiscal deficits will narrow as oil earnings climb, which will more than offset the substantial increase in public spending (an average increase of 15% in 2018). The fiscal situations in Saudi Arabia, the UAE, and Qatar are now on firmer footing. External pressures on Algeria and Bahrain will persist, as both fiscal and current accounts remain in sizeable deficits while official reserves are declining rapidly.

SELECTED MENA ECONOMIC INDICATORS

	Real GDP growth			Fiscal balance/GDP			Current account balance/GDP		
	2017	2018f	2019f	2017	2018f	2019f	2017	2018f	2019f
Bahrain	3.8%	3.0%	2.9%	-13.7%	-9.1%	-8.1%	-4.5%	-1.6%	-1.4%
Kuwait*	-3.5%	2.9%	4.8%	4.3%	9.8%	10.1%	5.9%	15.4%	15.9%
Oman	0.3%	3.4%	3.2%	-13.8%	-5.6%	-4.9%	-14.8%	-4.2%	-4.4%
Qatar*	1.6%	2.3%	4.3%	-2.2%	3.5%	3.7%	3.8%	11.8%	11.3%
Saudi Arabia	-0.9%	2.2%	2.6%	-9.2%	-4.4%	-3.1%	2.2%	9.9%	9.1%
UAE*	0.8%	2.5%	2.9%	-1.7%	-1.2%	-0.3%	6.9%	10.2%	8.5%
Algeria	1.6%	2.8%	2.7%	-6.4%	-6.2%	-3.3%	-10.6%	-4.0%	-4.6%
Iran	4.1%	-2.8%	-3.6%	-1.9%	-1.9%	-3.1%	3.9%	2.3%	-4.1%
Iraq	-0.8%	2.8%	3.7%	-2.3%	1.3%	-2.6%	3.3%	12.6%	7.6%
Egypt	4.2%	5.2%	5.6%	-10.7%	-9.6%	-8.4%	-6.4%	-2.9%	-2.7%
Jordan	2.0%	2.3%	2.7%	-2.6%	-2.7%	-2.4%	-10.7%	-10.0%	-8.9%
Lebanon	1.8%	1.2%	2.0%	-7.0%	-9.7%	-9.1%	-23.0%	-21.5%	-20.4%
Morocco	4.1%	3.1%	3.2%	-3.6%	-2.9%	-2.3%	-3.5%	-3.9%	-3.5%
Tunisia	2.0%	2.5%	3.0%	-5.8%	-5.2%	-4.2%	-10.3%	-9.8%	-8.0%

* fiscal balance includes investment income from SWFs in non-hydrocarbon revenues

Source: IIF

With higher oil prices and narrowing fiscal deficits, the urgency for reforms has diminished, particularly in Algeria, Iraq, Kuwait, and Saudi Arabia. Oil exporters in the region should pursue deeper structural reforms to strengthen the business climate and competitiveness to support private sector growth, diversification and job creation.

Beyond 2019, the stimulus from favorable oil prices and the external environment is likely to fade. First, oil prices are likely to decline. Second, normalization of US monetary policy will lead to less favorable borrowing terms for the region, at exactly a time that several countries experience higher refinancing needs.

The gradual recovery in the region’s oil importers will continue, driven by Egypt. Progress from recent reforms and de-escalation of conflicts in the region will support the recovery. However, the pace of growth will still be insufficient to significantly reduce high unemployment rates. While the fiscal deficits will narrow through tax measures, the public debt-to-GDP ratios will remain very high, particularly in Lebanon, Egypt, and Jordan, as per the IIF.

MENA countries should take concrete steps to improve the business climate and empower the private sector to achieve higher and more sustainable growth. To this end, laws and regulations governing business and investment should be revamped to draw on best practices in successful emerging economies and promote fairness, transparency and predictability, added the report. Risks are still tilted to the downside and include: (1) slower implementation of reforms, which would undermine private investment, and macroeconomic stability; (2) faster than expected US monetary tightening; and (3) an escalation of geopolitical tensions in the region.

MOODY'S CHANGES OUTLOOK ON EGYPT'S BANKING SYSTEM TO “POSITIVE” FROM “STABLE”

Moody's changed the outlook for Egypt's banking system to “positive” from “stable, as economic growth picks up, supporting credit growth, banks' profitability and internal capital generation.

The “positive” outlook also reflects the strong links between the banks' and the Government of Egypt's improving credit profile. This is due to the large exposure that Egypt's banks have to the country's government through investments in securities and loans, which stood at 40% of total banking system assets as of June 2018.

One of the key drivers of Moody's “positive” outlook for the Egyptian banking system is the improving operating environment, following the implementation of structural reforms that put the country on a path of sustainable and inclusive growth. Moody's expects real GDP growth to reach 5.5% in 2019 from 4.2% in 2017, while ongoing economic and fiscal reforms will slowly nudge GDP higher.

Increased domestic private sector investment, large infrastructure projects, as well as higher exports will drive economic growth and credit demand, as per the report.

Loan quality would remain stable, as new lending is tested. Moody's expects the formation of non-performing loans (NPL) to remain steady, and the NPL ratio to remain broadly unchanged from current levels of around 4.5% of of total loans as of March 2018, as the improvement in asset quality from legacy exposures dwindles.

Profitability would remain strong, as rising fees and commissions on new lending would support banks pre-provision profit. Loan-loss provisioning will be broadly stable for rated banks, as per Moody’s.

Egyptian banks' capital buffers would improve only modestly as internally generated capital finances loan growth. The largest Egyptian banks all exceed their regulatory minimum capital requirement, but their capital position is weaker than global peers. Banks' capital will improve modestly under Moody's base-case scenario but, is more vulnerable under the rating agency's high-stress scenario due to losses assumed on government securities.

The banks' funding and liquidity profiles would remain strong. The two largest government-owned banks, National Bank of Egypt SAE and Banque Misr SAE, have increased their market funding significantly, but their large liquidity buffers already offset refinancing risk. Egyptian banks would maintain high levels of liquid assets to ensure coverage of liquidity needs and deposit movements. Stable deposit funding and low loan-to-deposit ratios also support liquidity, as per Moody's.

GROWTH IN DUBAI'S NON-OIL PRIVATE SECTOR ENDS Q3 2018 ON WEAKER FOOTING, SAYS EMIRATES NBD

Growth in Dubai's non-oil private sector ended the third quarter of this on a weaker footing, with the latest expansion being the slowest since April, according to the latest Emirates NBD Dubai Economy Tracker.

The seasonally adjusted Emirates NBD Dubai Economy Tracker Index, a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy, fell to 54.4 in September 2018, down from 55.2 in August.

It is worth noting that a reading of below 50.0 indicates that the non-oil private sector economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change.

A contraction in employment and softer output growth contributed to the slight loss of impetus. Nonetheless, September's overall improvement in business conditions remained solid overall.

At the sector level, travel & tourism was once again the weakest performing category at 51.3 in September, followed by construction (53.8) and wholesale & retail (55.5) respectively.

Output across Dubai's non-oil private sector increased during September. Although the rate of growth eased since August, it remained sharp overall and above the long-run average. Activity increased to the greatest extent in the wholesale & retail sector.

Employment levels fell for the first time since March, and at the fastest pace since the survey began in January 2010. Some firms linked job shedding to cost cutting. That said, the rate of contraction was only slight.

Continuing the sequence of growth recorded since March 2016, inflows of new work increased once again in the latest survey period. That said, the rate of growth eased to a five-month low during September but remained steep overall.

Business confidence across the non-oil private sector remained strongly positive during September. Panelists remained optimistic towards projects surrounding Expo 2020, marketing initiatives and planned business expansion.

Average cost burdens continued to rise in September, stretching the current phase of input price inflation to six months. That said, the latest increase in input costs was below the historical average.

Selling prices in Dubai's non-oil private sector continued to fall amid intense competitive pressures and promotional activity. The degree of price discounting was modest during September, with the latest decrease extending the current sequence of falling output charges to five months.

SURVEYS

CAIRO'S REAL ESTATE MARKET REMAINED STABLE DURING Q3, AS PER JLL

The Cairo real estate market remained stable during Q3 as demand typically shifted to coastal areas during the summer season, as per Jones Lang Lasalle (JLL). Efforts by the Ministry of Housing and Development to promote the real estate market abroad have added to the generally positive sentiment in the sector.

Real GDP is forecast to increase by 5.3% in the 2017/2018 fiscal year compared to 4.2% in the previous year. This growth results from increased investment and the steady application of economic reforms.

The construction and building materials industry is key to the real estate sector. It is expected to pick up following the inauguration of Egyptian Cement Group's US$ 1.1 billion cement & marble production complex in Beni Suef, as per the report. This plant will assist the building industry through reducing prices of construction materials, as well as reviving activity and contributing to job creation in Upper Egypt.

In a detailed look at the sector, the residential sector continues to perform strongly, despite demand shifts towards coastal areas over the summer season. Secondary sales experienced a slight drop in prices over the quarter due to increased primary sales. The New Cairo market experienced an increase in quoted rents in Q3, as per the same source.

Furthermore, the office sector continues to grow at a healthy pace. Demand is equally distributed between leasing and sales in good quality integrated office parks.

According to JLL, the sale of office space represents a relatively new phenomenon, with developers releasing new office projects for sale on eased payment terms.

Retail rents have remained stable over the quarter, with vacancies remaining level. Vacancies are however expected to increase in the medium term, due to new market additions. Local brands continue to perform strongly due to changes in demand preferences and affordability levels, as per JLL.

Moreover, the hotel and tourism sector continued to display positive trends over the quarter on the back of increased government efforts to revive the sector in terms of improved security measures and active advertising campaigns, according to JJL.

ARTIFICIAL INTELLIGENCE DEVELOPMENTS SET TO CONTRIBUTE UP TO 13.6% OF GDP IN THE UAE BY 2030 & BEYOND, AS PER NETAPP

The ongoing shift to new smart city ecosystems that equip tech-savvy citizens with easy access to information using intelligent services and applications has become the hallmark of future urbanism.

With the emergence of Artificial Intelligence (AI) as a big game changer in the global economy, the UAE remains keen on capitalizing on the opportunity for the region to become a key player in the global agenda, as advancements in AI is set to contribute up to 13.6% GDP in the UAE by 2030.

Advances in AI, particularly deep learning, is key to an organization's transformation in modern digital economy. With increased education and awareness levels about its real business potential, many regional businesses will be able to completely harness the technology's capabilities.

The key differentiator of success in AI adoption is an organization's approach to data.

The role of data in the emerging world of deep learning and artificial intelligence is extremely key, especially in training deep learning systems in financial services and reducing false inferences. Healthcare is another important area of focus in terms of AI adoption in the Middle East.

The introduction of a new policy to govern the use and implementation of AI in healthcare by the Abu Dhabi Department of Health is a recent example. Yet, the control over distributed data stores that ensures the availability of complete, current, and accessible data for AI projects remain a challenge in the region.

It is worth noting that, NetApp® ONTAP® AI enables businesses to create a seamless data pipeline that spans from the edge to the core to the cloud by leveraging the NetApp Data Fabric. It eliminates performance bottlenecks to enable secure, uninterrupted access to data from multiple sources and data formats with its massive processing power and capacity.

THE BOYCOTT CONTINUED TO HAVE A MIXED IMPACT ON QATAR'S ECONOMIC POLICY, AS PER THE EIU

The boycott will continue to have a mixed impact on Qatar's economic policy. Its dampening effect on economic growth will force the government to maintain a high level of current spending on wages, which will necessitate occasional cuts to capital expenditure—in turn eroding some profitable investment and lending opportunities for corporates and banks respectively, as per the EIU.

Moreover, some disruption to trade routes and major operational risks may deter contractors from bidding for some projects related to the government's National Vision 2030—a development plan aimed at diversifying the economy away from hydrocarbons.

The government will ease legal barriers to entry for foreign investors, promote competitive market practices and roll out new business incentives and guarantees, as it works to soften the boycott's impact on the non-oil economy. This was illustrated most recently in May when the government approved a new draft foreign investment law that will, among other things, permit foreigners to own 100% of the capital of companies across all economic sectors, dependent on approval from the Ministry of Economy and Commerce.

On a side note, EIU revised their fiscal forecast and now expect a slightly larger surplus in the latter years of the forecast due to an upward revision to their global oil price assumptions. In the short-term, the boycott will restrict fiscal policy flexibility, particularly with regard to spending on socially sensitive items such as food subsidies, wages and welfare. Indeed, rising oil prices since late 2017 have reduced the incentive for the government to phase in a planned GCC-wide value-added tax (VAT) of 5%, although political caution may have been another contributing factor to the postponement of the tax measure, originally scheduled to come into force on January 1st.

The government is aiming to roll out VAT in 2019 as it seeks to offset the impact on revenue of an expected renewed downturn in oil prices in that year. Even with planned revenue-raising measures such as VAT, the EIU forecasts that Qatar will remain a low-tax environment for corporates.

A more pronounced improvement in the public finances is likely in 2022, when the agency expects non-oil revenue to surge on the back of improved economic performance, with positive knock-on effects for the government's tax take. Given domestic liquidity constraints, the EIU expects the deficit to be financed in 2018-22 by borrowing from the QIA and the Qatar Central Bank (QCB) and by the sale of bonds to domestic and foreign buyers.

Furthermore, the most recent real GDP growth data put growth in the first quarter of 2018 at 1.4% year-on-year, down from 3% in the final quarter of 2017—driven in part by the nonoil economy. Qatar's economic isolation in the region will prevent any meaningful surge in growth in the coming years, with the notable exception of 2022, when the the country is due to host the football World Cup , according to EIU.

CORPORATE NEWS

DAFZA STARTS WORK ON US$ 871 MILLION DUBAI COMMERCITY

Dubai Airport Freezone Authority (Dafza) and UAE developer Wasl Asset Management Group said early works commenced on their AED 3.2 billion (US$ 871 million) Dubai CommerCity project and the piling and shoring will begin next year.

Dubai CommerCity, launched in 2017, is spread over an area of 2.1 million square feet in Umm Ramool.

The duo said the investment value of Dubai CommerCity increased by 18.5% to AED 3.2 billion in total with an increase in the total leasable area by 32.5%.

L&T SECURES U$ 253 MILLION KUWAIT POWER PROJECT CONTRACT

India's engineering and construction firm Larsen & Toubro (L&T) said one of its units has been awarded a US$ 253 million order for power infrastructure in connection with major housing projects in Kuwait.

As per the deal, L&T's Power Transmission and Distribution Business will provide engineering, procurement and construction (EPC) services for a total of 22 132/11 kV substations in Kuwait.

Thanks to these substation networks, the large housing projects being developed by the Public Authority for Housing Welfare (PAHW) at South Al Mutlaa and South Abdullah Al Mubarak cities will receive reliable power supply, said a statement from L&T.

The Ministry of Electricity and Water is the consultant for the project, it stated.

L&T said additional orders were received from ongoing transmission line projects in India and Egypt.

RAK CERAMICS FULLY ACQUIRES SAUDI JVs

UAE-based RAK Ceramics acquired the remaining minority shares of its joint ventures in Saudi Arabia. The company now fully owns its operations in the Kingdom.

Over the last few years, RAK Ceramics was consolidating its global operations and this latest purchase follows acquisitions in Europe, India, and Australia, said a statement from the company.

Europe and Saudi Arabia are the company's major export markets, followed by the rest of the Middle East, Africa, and Asia Pacific, it said.

OMAN POWER AND WATER PROCUREMENT COMPANY SET TO LAUNCH SECOND SOLAR PROJECT

Oman Power and Water Procurement Company (OPWP) announced plans to launch a second utility-scale solar power plant with a 1 gigawatt (GW) capacity in the Dhahirah Governorate of the Sultanate.

The sole procurer of new power and water capacity, OPWP, said the new solar photovoltaic (PV)-based independent power project will be due for commercial launch in 2022.

The Solar 2022 IPP, as the new project is named, is expected to be implemented alongside Oman’s maiden commercial-scale solar, dubbed “Ibri II Solar IPP”, at the Ibri in Dhahirah Governorate.

OPWP aims to procure more than 2,600 MW of renewables-based power generation capacity by 2025, as per the same source.

WAHA BUYS MINORITY STAKE IN PETRONASH IN US$ 88 MILLION DEAL

Waha Capital, an investment company based in Abu Dhabi, acquired a significant minority stake worth US$ 88 million in Dubai-based Petronash Holdings, a global oilfield services and manufacturing company.

The deal includes options to further increase Waha Capital's stake in Petronash up to 50%. As part of this transaction, Petronash will establish research and development centers in Chennai (India) and Dammam (Saudi Arabia) to drive innovation and technology integration, with the objective of expanding the company's service and product lines and widen the customer base.

Petronash is a leading provider of modular wellsite packages, chemical injection systems and wellhead control systems to the oil and gas industry. The company is a manufacturer of specialized oilfield equipment with plants in Dubai, Houston and Dammam, and a state-of-the-art, centralized design, engineering and component-manufacturing hub in Chennai, India.

UAE'S BINGHATTI DEVELOPERS SIGNS US$ 54 MILLION SALES DEAL FOR TWO RESIDENTIAL PROJECTS

United Arab Emirates-based real estate developer Binghatti Developers signed an AED 200 million (US$ 54 million) sales agreement with Oman's Izdihar Real Estate Fund for two projects in Dubai. Izdihar is the first real estate investment trust (REIT) type of fund established in Oman and is managed by Bank Muscat.

The developer said that the deal involves the acquisition by Izdihar of its two residential properties, namely the nine-storeys, 118-unit Binghatti Vista and the 10-storey, 129-unit Binghatti Sapphires, both located in Dubai Silicon Oasis.

SWISS SIKA OPENS HI-TECH FACTORY AT DUBAI INDUSTRIAL PARK

Sika, a global company for chemicals and building materials, officially inaugurated its facility along with the offices in Dubai as part of its regional expansion strategy.

With 240,000 tons annual production capacity, the new facility will constitute the basis for the production of high-performance concrete admixtures and will play a strategic role as a key sales and distribution center for the region, said a statement from the Swiss company. The factory, located at Dubai Industrial Park, was built at a total investment of around AED 40 million (US$ 10.8 million).

ROSATOM JV WINS EGYPT NUCLEAR PROJECT SUPPLY DEAL

AAEM, a joint venture between Atomenergomash, the power engineering division of Russian group Rosatom and global technology major General Electric (GE), won a contract to supply turbine hall equipment for Units 1 to 4 of the El Dabaa nuclear power station in Egypt.

The contract was awarded by the DEZ JSC (acting on behalf of Atomstroyexport JSC, a general contractor for the El Dabaa project).

AAEM joint venture was established in 2007 to equip the conventional islands of NPPs of Russian design. It has combined extensive production capabilities and in-depth water-water energy reactor (VVER) expertise of Atomenergomash with high performance of GE equipment building based on the Arabelle half-speed technology and the company's proven record in nuclear power engineering.

Under the contract, the company will be responsible for designing, manufacturing and supplying four sets of steam turbines, condensers, generators and select auxiliary equipment, and for technical field advisory services during erection and commissioning of supplied equipment at the nuclear power plant (NPP) site. As per the deal, over 50% of the equipment will be manufactured in Russia. The El Dabaa nuclear power plant will comprise Arabelle half-speed steam turbines and Gigatop 4-pole generators manufactured by General Electric.

CAPITAL MARKETS

EQUITY MARKETS: MENA EQUITY MARKETS UNDER DOWNWARD PRICE PRESSURES, TRACKING EMERGING MARKET WEAKNESS

MENA equity markets came under downward price pressures this week, tracking a wide sell-off mood in emerging markets amid stronger US dollar and concerns over China's economic growth, and also driven by an oil price slump and some unfavorable third quarter financial results. This was reflected by a 3.6% drop in the S&P Pan Arab Composite Index.

The heavyweight Saudi Tadawul registered a 6.0% fall in prices this week, tracking emerging market weakness, and dragged by increased geopolitical tensions, oil price declines and some unfavorable company-specific factors. Brent oil prices dropped by 4.4% week-on-week to reach circa US$ 80 per barrel after latest US data showed higher-than-expected US crude oil inventories for the week ending October 5, 2018. Petrochemicals giant SABIC's share price plunged by 7.6% to SR 116.20. Petro Rabigh's share price plummeted by 9.6% to SR 22.08. Advanced Petrochemical Company's share price shed 11.3% to SR 48.15. Advanced Petrochemical Company reported 2018 third quarter net profits of SR 202 million as compared to net profits of SR 208 million a year earlier.

Also, Etihad Etisalat's share price dropped by 9.5% over the week to reach SR 17.12. The Saudi Communications and Information Technology Commission suspended some of the services of Etihad Etisalat for failing to meet regulatory obligations for Saudisation, though the suspension was lifted later on after Etihad Etisalat submitted proof of its commitment to meeting the Saudisation requirements. Almarai's share price shed 6.4% to SR 45.0. Almarai announced a 4.9% year-on-year fall in its 2018 third quarter net profits to reach SR 635 million. Al Tayyar Travel's share price plunged by 7.6% to reach SR 21.20.

The UAE equity markets registered a 1.2% decrease in prices week-on-week, mainly dragged by the rout in emerging markets, oil price drops and some unfavorable company-specific factors. Takaful Emarat Insurance's share price plunged by 6.2% to AED 1.67. Al Ramz Corporation Investment and Development said that it has divested its 17.8% stake in the company. Ajman Bank's share price shed 7.2% to AED 0.90. Ajman Bank started trading its rights issue on October 10, 2018. The bank plans to raise its capital to AED 2.1 billion through the issuance of 419 million shares at AED 1 each. Dubai Islamic Bank's share price declined by 1.3% to AED 5.25, despite posting a 10.8% year-on-year

EQUITY MARKETS INDICATORS (OCTOBER 07 TILL OCTOBER 13, 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	85.2	-0.3%	-13.2%	12.7	68.4%	2.1	9,239.0	7.2%	5.6	0.74
Jordan	378.8	-1.9%	-1.1%	49.1	41.6%	27.9	23,317.9	10.9%	13.9	1.36
Egypt	275.9	-5.6%	-10.1%	161.4	-20.0%	720.3	42,159.2	19.9%	10.6	2.20
Saudi Arabia	325.5	-6.0%	6.4%	3,983.0	-1.4%	642.8	476,224.8	43.5%	14.6	2.06
Qatar	178.3	-0.3%	15.7%	203.7	-27.8%	20.7	151,029.3	7.0%	14.7	1.95
UAE	119.4	-1.2%	-3.6%	373.3	-27.1%	871.7	243,860.8	8.0%	11.8	1.74
Oman	218.9	-0.7%	-7.7%	14.0	-45.2%	33.6	19,314.9	3.8%	10.3	1.16
Bahrain	124.1	-1.0%	1.4%	15.5	-57.5%	22.7	20,726.1	3.9%	10.7	1.18
Kuwait	94.3	-0.7%	8.7%	179.4	5.1%	297.3	84,371.6	11.1%	15.0	1.58
Morocco	267.0	-0.5%	-11.9%	36.3	97.9%	2.6	60,020.3	3.1%	18.0	2.63
Tunisia	76.8	-1.2%	-0.3%	8.5	-38.1%	3.5	8,761.8	5.0%	13.2	2.16
Arabian Markets	**713.0**	**-3.6%**	**3.9%**	**5,036.9**	**-5.7%**	**2,645.2**	**1,139,025.6**	**23.0%**	**13.8**	**1.92**

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

Sources: S&P, Bloomberg, Bank Audi's Group Research Department increase in its 2018 third quarter net profits to reach AED 1.23 billion. Emirates NBD's share price decreased by 1.4% to AED 9.25. In Abu Dhabi, Taqa's share price went down by 0.9% to AED 1.13. UNB's share price fell by 2.8% to AED 4.80. ADCB's share price dropped by 2.7% to AED 7.88.

The Qatar Exchange registered a 0.3% retreat in prices week-on-week, as concerns over emerging market weakness outweighed the impact of some favorable company-specific factors and bets over solid third quarter results. 27 out of 45 traded stocks registered price falls, while 15 stocks recorded price gains and three stocks saw no price change week-on-week. Commercial Bank of Qatar's share price shed 4.9% to QR 38.02, despite forecast by QNBFS that CBQ would report strong earnings during the third quarter of 2018, citing significantly lower provisions and operating expenditures. Ahli Bank Qatar's share price plunged by 7.8% to QR 29.50. Doha Bank's share price fell by 2.9% to QR 21.20. Nakilat's share price shed 2.2% to QR 17.45.

The Egyptian Exchange registered a 5.6% fall in prices week-on-week, mainly dragged by emerging market jitters, margin calls among local investors and some unfavorable company-specific factors. Eastern Tobacco's share price fell by 6.3% to LE 15.57. Talaat Moustafa Group's share price shed 4.0% to LE 10.21. Palm Hills Development's share price plunged by 15.4% to close at LE 2.016. Memphis Pharmaceuticals and Chemical Industries' share price dropped by 9.6% to LE 8.31. The firm announced a widening loss of LE 29 million during the third quarter of 2018 as compared to a net loss of LE 8 million a year earlier.

FIXED INCOME MARKETS: MENA BOND MARKETS ON THE DECLINE AMID EMERGING MARKET JITTERS

Regional fixed income markets continued to see negative price movements this week, tracking weakness in emerging markets after the US Federal Reserve lifted late September its key interest rate for the third time this year, which implied stronger US dollar and higher borrowing costs, in addition to concerns over China's economic growth amid deepening trade war between the US and China that has recently prompted the Central Bank of China to cut banks' reserve requirements to spur growth. This was reflected by an 8.6% expansion in the Z-spread based Audi compiled MENA bond index.

In the Moroccan credit space, sovereigns maturing in 2022, 2024 and 2042 were down by 0.38 pt, 0.25 pt and 1.63 pt respectively this week. Standard and Poor's revised its outlook on Morocco to "negative" from "stable". S&P affirmed the long-term and short-term foreign and local currency sovereign credit ratings at "BBB-/A-3". The "negative" outlook signifies that S&P could lower ratings on Morocco within the next 24 months if the government fails to improve its budgetary position, pushing net government debt levels beyond its forecasts; if real GDP growth rates materially undershoot expectations; or if external imbalances widen further.

In the Abu Dhabi credit space, sovereigns maturing between 2019 and 2047 saw price retreats of up to 0.94 pt week-on-week. Mubadala papers maturing between 2019 and 2029 posted price declines ranging between 0.06 pt and 0.29 pt. Prices of Etisalat'19, '21 and '24 fell by 0.17 pt, 0.19 pt and 0.21 pt respectively. ADNOC'29 and '47 closed down by 0.16 pt and 1.00 pt respectively. As to papers issued by financial institutions, First Abu Dhabi Bank'20, '22 and '23 were down by 0.04 pt, 0.17 pt and 0.28 pt respectively. ADCB papers maturing between 2019 and 2023 registered price retreats of up to 0.64 pt. Prices of Noor Bank'20 and Perpetual retreated by 0.14 pt and 0.28 pt respectively.

In Dubai, sovereigns maturing between 2020 and 2043 recorded price falls of 0.22 pt to 0.87 pt this week. Emaar'19 and '24 were down by 0.12 pt each. Prices of Emaar'26 declined by 0.47 pt. DP World papers maturing between 2020 and 2048 registered price drops ranging between 0.07 pt and 1.08 pt. Amongst financials, DIB papers maturing in 2021, 2022 and 2023 posted price retreats of 0.27 pt, 0.46 pt and 0.48 pt respectively. Prices of ENBD'19 and '20 declined by 0.11 pt and 0.05 pt respectively.

It is worth mentioning that the UAE has recently taken a major step towards deepening its financial markets by issuing a law permitting the federal government to issue sovereign debt for the first time. The new legislation would help boosting banking liquidity and enable individual emirates to benefit from higher issuer ratings than they could achieve individually.

In the Bahraini credit space, sovereigns maturing between 2021 and 2025 saw price falls ranging between 0.13 pt and 0.50 pt week-on-week. Sovereigns maturing between 2026 and 2047 registered price declines of up to 3.13 pts. CI Ratings affirmed Bahrain's long-term foreign and local currency sovereign ratings at "BB" and its short-term foreign and local currency ratings at "B". At the same time, the outlook for Bahrain's ratings has been revised to "negative" from "stable". The "negative" outlook reflects, according to CI Ratings, the continued weakening of Bahrain's net external asset position and the sovereign's declining capacity to mitigate further volatility in oil prices, as well as the relatively weak state of the public finances. The "negative" outlook also takes into account Bahrain's increasing reliance on cross border funding to secure its financing needs, which in turn has made the country more vulnerable to shifts in investor risk perceptions.

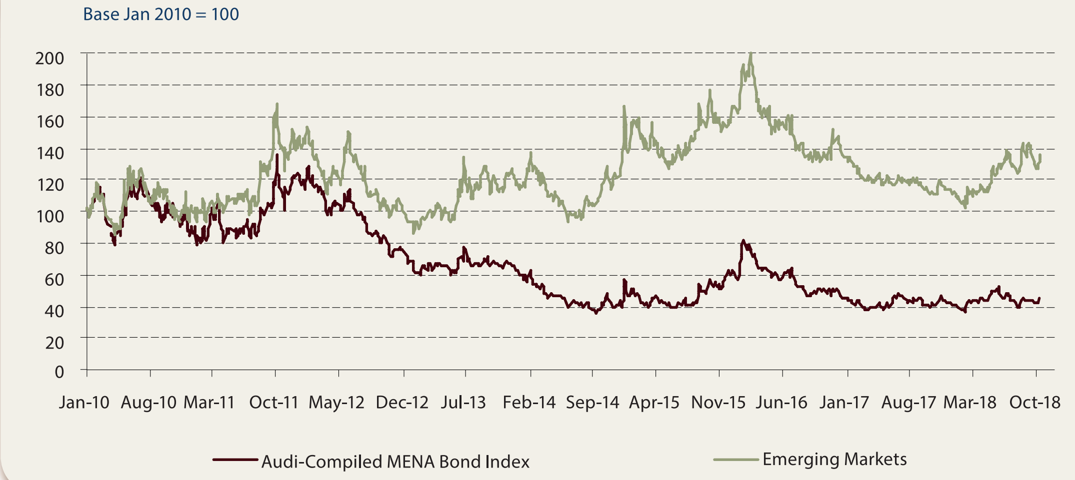
Finally, in the Egyptian credit space, US dollar-denominated sovereigns maturing between 2022 and 2048 saw price falls ranging between 0.25 pt and 1.00 pt this week. Euro-denominated sovereigns maturing in 2026 and 2030 traded down by 0.50 pt and 0.63 pt respectively.

MIDDLE EAST 5Y CDS SPREADS V/S INTL BENCHMARKS

in basis points	12-Oct-18	05-Oct-18	29-Dec-17	Week-on-week	Year-to-date
Abu Dhabi	69	62	64	7	5
Dubai	125	122	123	3	2
Kuwait	70	69	66	1	4
Qatar	79	71	105	8	-26
Saudi Arabia	90	72	92	18	-2
Bahrain	289	285	276	4	13
Morocco	102	102	121	0	-19
Egypt	369	355	316	14	53
Lebanon	719	704	520	15	199
Iraq	379	346	424	33	-45
Middle East	**230**	**219**	**211**	**11**	**19**
Emerging Markets	**206**	**204**	**136**	**2**	**70**
Global	**169**	**166**	**132**	**3**	**37**

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$)	12-Oct-18	05-Oct-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)	1,182.28	1,187.40	1,176.53	-0.4%	0.5%
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	119.05	114.94	-1.2%	2.4%
Moroccan Dirham (MAD)	9.45	9.47	9.35	-0.2%	1.1%
Tunisian Dinar (TND)	2.83	2.81	2.48	0.6%	14.2%
Libyan Dinar (LYD)	1.38	1.38	1.36	0.0%	1.3%
Sudanese Pound (SDG)	47.62	18.00	7.02	164.5%	578.8%

Sources: Bloomberg, Bank Audi's Group Research Department

DISCLAIMER