

The Lebanon Weekly Monitor

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Lebanese capital markets started the new year with a strong momentum on the Eurobond market, while the equity market was underpinned by a sluggish activity, and the foreign exchange market continued to see FC-to-LP conversions. In details, the bond market was marked by a rising local demand during this week that translated into a significant improvement in prices and a 37 basis points drop in the average spread to hit 253 basis points, its lowest level in three years. On the equity market, activity was relatively shy during this week. The total trading value was limited to US\$ 8 million as compared to a weekly average of US\$ 18 million in 2009, while the price index rose by 0.9% week-on-week. On the foreign exchange market, FC-to-LP conversions persisted during this week, yet in lower volumes relative to the previous weeks. Within this context, the Central Bank's latest bi-monthly balance sheet ending 31st of December 2009, showed a US\$ 259 million increase in foreign assets during the second half of December to hit a new historical high level of US\$ 28.3 billion at end-2009. As a result, the Central Bank's foreign assets grew by an impressive US\$ 8.6 billion in 2009, which mirrors the strong wave of conversions in favor of the Lebanese Pound during the said year.

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► ECONOMY

Capital inflows up by 26% in the first eleven months of 2009

Throughout the first eleven months of 2009, the Lebanese economy continued to benefit from the staggering inflow of foreign capital, in spite of difficult economic conditions in Arab countries and across the world, at large. As a matter of fact, capital inflows in the latter period, were at a record high when compared to the same period of previous years, reaching US\$ 18,028 million, and rising by a considerable 26.3% year-on-year.

Capital flowing into Lebanon can take several forms, ranging from non-resident deposit inflows, which went up by US\$ 4,417 million, more than two times the growth reported over the full-year 2008, to inwards remittances into the country, with anecdotal evidence from the World Bank suggesting that so far that the said cash flows have remained more or less steady, foreign direct investments, which went up by 20% over the first ten months of 2009, as per estimates of the Investment Development Authority in Lebanon (IDAL), and lastly cash transfers to tourists visiting Lebanon. The latter channel definitely played in favor of capital inflow into Lebanon, in line with the booming tourism activity, as well as the 13% increase in tax-free spending of tourists visiting Lebanon.

Balance of payment surplus close to US\$ 6.2 billion in the first eleven months of 2009

The flood of foreign capital into the country over the first eleven months of 2009 resulted in a cumulative balance of payments surplus of US\$ 6,289 million, a record high for Lebanon, and up from a surplus of US\$ 2,747 million in the first eleven months of 2008. As a matter of fact, the surplus in the first eleven months of 2009 is almost double that registered in full-year 2008, which marked a yearly peak for Lebanon.

The cumulative surplus in the first eleven months of 2009 is the result of a rise of US\$ 7,712.3 million in net foreign assets of the Central Bank, which more than offset the decline of US\$ 1,423.2 million in those of banks and financial institutions.

Steady growth in banking activity in the first eleven months of 2009

Lebanon's banking sector continued to flourish in November 2009, registering positive growth in all major aggregates. Indeed, during the month, total assets went up by US\$ 2,002 million, total deposits rose by US\$ 1,620 million, while total loans went up by US\$ 722 million, their third highest growth in 2009, so far.

Growth during November 2009 reinforced the overall year-

to-date growth of banking aggregates. Between December 2008 and November 2009, total bank assets grew by US\$ 19.3 billion, the equivalent of 20.5%, almost two times the growth reported over the corresponding period of 2008, and nearly 2.8 times the average growth recorded over the corresponding period of the previous six years. This growth clearly highlights the strong confidence in the Lebanese banking sector within the context of capital fleeing to the most immune banks and financial institutions across the world.

The main activity drive remains customer deposits. The latter's growth in the first eleven months of 2009 was at US\$ 16.3 billion, or 20.9%. It is worth noting that this growth is quite considerable and even surpasses the US\$ 10.5 billion expansion seen in full-year 2008, which by itself was an exceptional year for the Lebanese banking sector. Deposit growth in the first eleven months of 2009 is almost two times the growth witnessed in the same period of 2008 and more than three times the average growth reported over the previous six years. Bank deposits progressed from US\$ 77,779 million at end-December 2008 to US\$ 94,063 million at end-November 2009.

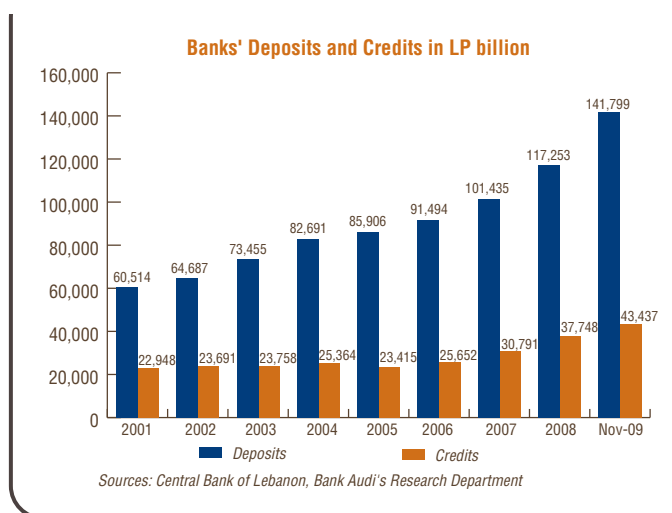
Within the context of significant conversions from FX holdings to LP holdings as a result of growing confidence in the national currency, the growth in deposits was accounted for to the extent of 56.7% by LP deposits. LP deposits actually grew by US\$ 9,228 million, while FX deposits rose by US\$ 7,055 million over this year's first eleven months. This actually favored a further decline in dollarization from 69.6% in December 2008 to 65.0% in November 2009, its lowest level in nine years. In parallel, close to 27.1% of the deposits growth was accounted for by non-residents deposits, keeping in mind that this ratio is almost two times the share of non-resident deposits from aggregate deposits. The former progressed by US\$ 4,417 million in the first eleven months of 2009 to reach US\$ 15,923 million.

In parallel, credit activity in Lebanon was relatively stronger than activity in other countries within the context of tight credit conditions across the globe. Indeed, the growth in loans was quite significant in July, September, and November 2009, which led to a relatively healthy growth in bank loans in the first eleven months of 2009, even if this growth is lower than that witnessed in the same period of 2008.

Indeed, bank loans to the private sector posted a growth of US\$ 3.8 billion, or 15.1%, lower than the US\$ 4.3 billion high of last year's corresponding period, yet exceeding the US\$ 3.4 billion witnessed in the same period of 2007, as well as the average growth of the past six years of US\$ 1.9 billion.

At the level of dollarization of loans, lending remained highly dollarized to the extent of 85% in November 2009, with this ratio almost unchanged since the start of the decade despite the reported important de-dollarization on the funding side. Nonetheless, it is worth noting that significant efforts by the Central Bank to stimulate LP lending activity have paid off to a certain extent and this is clear through the fact that 28.1% of the growth in loans was accounted for by LP loans, compared to a ratio of 12.6% in full-year 2008.

Last but not least, recent data from the Central Bank of Lebanon indicated that in the first eleven months of 2009, listed Lebanese banks posted US\$ 932 million in net profits, which when annualized would be almost equal to the US\$ 1,079 million registered in 2008. This fact that Lebanese banks have maintained their elevated earnings level of 2008, during a year where a large number of global peers witnessed net contractions in their bottom line amid the global financial crisis, indeed bodes well for Lebanese banks.



Fiscal deficit-to-GDP-ratio on the decline in the first eleven months of 2009

Lebanon's fiscal performance over the first eleven months of 2009 improved on account of the percentage growth in total fiscal revenues surpassing that of total expenditures. This amelioration is noted at the level of the almost steady fiscal deficit in the first eleven months, which, within the context of a rising GDP in 2009, has led to a significant decline in the deficit-to-GDP ratio.

Indeed, if were to annualize the fiscal deficit attained in the first eleven months of 2009, and calculate the deficit-to-GDP ratio, the result would indicate a drop from a ratio of 10.0% in 2008 to 8.7% in 2009. Also, the ratio of total deficit to total expenditures dropped significantly reaching 25.1% in the first eleven months of 2009, versus a higher 29.0% in 2008's same period.

On the income front, public revenues which include budget and Treasury receipts, increased by 21.9% relative to the same period of 2008, thereby reaching LP 11,634.5 billion. Treasury revenues registered a drop of 5.3% to become LP 624.6 billion, explained by a lower amount of grants received. As to budget revenues, they moved up by a considerable 23.9% to reach LP 11,009.9 billion driven by a rise in both tax revenues and non-tax revenues.

Total tax revenues went up by 25.5%, due to a year-on-year rise of 76.5% in custom revenues, reflecting a significant rise in gasoline excise revenues, as well as an 11.6% increase in VAT revenues, mirroring an amelioration in aggregate private consumption. As for non-tax revenues, they went up by 19.2%, explained mainly by an increase in income from public institutions.

On the spending side, total public expenditures, which include budgetary and Treasury spending, increased by a yearly 15.5% in the first eleven months of 2009 to reach LP 15,541 billion, caused by a 17.5% rise in budgetary expenditures, as well as 9.9% rise in Treasury expenditures. The latter reached LP 3,851.2 billion in the first eleven months of 2009, and a large portion of such expenditures, precisely 53.4%, are transfers to the electricity company, nonetheless the latter registered a decrease of 5.2% in the first eleven months of this year, due to the decline in global fuel prices. In parallel, other Treasury expenditures witnessed a significant increase in the covered period, namely Treasury guarantees went up by 100.9%.

In parallel, budgetary expenditures were at LP 11,689.8 billion, up by 17.5% relative to the first eleven months of 2008. Their rise was triggered by an increase in both interest and non-interest expenditures. Interest payments on domestic and foreign debt registered a total of LP 5,161.4 billion in the first eleven months of 2009, increasing by 13.0% relative to the same period of 2008. This rise was mostly spurred by a rise of 21.4% in interest payments on local currency debt, as interest payments on foreign debt went up by a mere 1.8%. On the other hand, general budgetary spending went up by 23.6% to reach LP 6,267.1 billion.

As such, the fiscal deficit reached LP 3,906.6 billion in the first eleven months of 2009, which is almost equal to the deficit of LP 3,904 billion registered in the same period of 2008. When excluding debt service, the first eleven months of the year also witnessed an important improvement at the level of the primary balance, which registered a cumulative surplus of LP 1,516.1 billion, up by 55.7% from a surplus of LP 973.7 billion in the first eleven months of 2008.

► SURVEYS

Lebanon witnesses progress in terms of economic freedom

According to the 2010 Index of Economic Freedom, a wide indicator of economic freedom in 179 countries prepared by the Heritage Foundation and the Wall Street Journal, the Lebanese economy has somewhat advanced in terms of economic freedom, as demonstrated by the progression in the country's global index ranking, as well as the rise in its score.

Lebanon came in the 89th place globally and 9th out of 17 countries in the Middle East and North Africa region. Lebanon's global ranking improved year-on-year as it ranked 95th in the 2009 survey, yet its regional ranking remained unchanged. Also, the 2010 survey indicated that Lebanon's score advanced, as the Lebanese economy is currently characterized as being 59.5% free, versus 58.1% a year ago. Its score surpassed the global average of 59.4%, and was very close to the MENA and Arab averages of 60.4% and 61.0%, respectively. Regionally, Lebanon came ahead of Morocco, Egypt, and Tunisia, and ranked directly behind Saudi Arabia, Jordan, and the UAE.

The index divides the 52 independent variables it evaluates into 10 broad factors of economic freedom, namely: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom.

The yearly rise in Lebanon's score in 2010 is due to an improvement in 3 of the 10 components of economic freedom. In particular, Lebanon improved significantly in terms of investment freedom, thus allowing for intensified investment activity in the country. Lebanon also displayed continuous progress in terms of financial freedom and trade freedom.

Lebanon's strong points remained trade freedom, fiscal freedom, monetary freedom and financial freedom. With a comparably low weighted average tariff rate, its trade freedom score well surpasses the global, MENA, and Arab average score. As to Lebanon's advanced fiscal freedom, it is the result of the fact that the top income and corporate tax rates are low, and the overall tax burden is low as well. Also, the financial and monetary sectors are relatively well developed when compared to the region, with a range of private banks and services.

In details, Lebanon scored 56.6% on the business freedom category, with this score being pulled up by the fact that obtaining a business license takes about the same as the world average of 18 procedures and 225 days. Still, the overall freedom to start, operate, and close a business is limited by Lebanon's regulatory environment: The cost of starting a business is high, and closing a business is lengthy and costly, and thus, Lebanon's score in this category remains below the

global and regional averages of 65.0% and 67.1%, respectively. In the trade freedom sub-index, Lebanon posted a steady progress from an already high score of 80.0% in 2009 to a score of 85.0% in 2010. Its score exceeded the global and regional averages of 74.6% and 75.1%.

Moving on, Lebanon scored the highest in the fiscal freedom category, with its score of 91.6% surpassing the regional average of 75.4% and the global average of 87.0%. This category measures the tax burden on government, and the study noted Lebanon has low tax rates, with the top income tax at 20%, and the corporate tax rate at 15%. Also, tax revenue as a percentage of GDP was at a relatively high 14.4%. In the category of size of government, Lebanon's score of 62.8% is slightly below the MENA and global averages of 68.9% and 65%, respectively. A trivial yearly decline of 1.3% in the country's score this year suggests a rise in the country's government expenditures, which incorporate consumption and transfers.

In the monetary freedom sub-index, which assesses price stability and price controls, Lebanon's score of 71.4% marked a drop from last year's score of 77.3%, on account of policies distorting domestic prices. Still, the fact that this score surpassed the global and MENA averages, which were at a respective 70.6% and 68.9%, suggest that prices in Lebanon did not fluctuate as much as they did in the MENA region or the rest of the world. When it comes to investment freedom, Lebanon's score saw an upsurge of 25% from a score of 30% in 2009 to a score of 55% in 2010, on account of the passage of several laws to promote investment. Further, the improvement in Lebanon's score has led to it exceeding the global and regional averages of 49.0% and 48.1%, respectively. Still, the study pinpointed that further improvement is required in terms of red tape and corruption, and arbitrary licensing decisions.

As noted earlier, Lebanon's score in the financial freedom category was relatively well and above the regional and global averages of 48.5% and 45.9%, respectively. Lebanon's score has improved in this category from 58.6% in 2009 to 60% in 2010, as the country's financial sector has demonstrated relative resilience to the global financial crisis. Also, regulations are fairly transparent, and credit is allocated on market terms for both domestic and foreign businesses.

When it comes to property rights, Lebanon's score remained constant at 30%, below the global average of 43.8% and the MENA average of 41.5%. Although Lebanese law provides for some protection of intellectual property rights, enforcement is weak. In the freedom from corruption category, Lebanon also scored 30%, below the regional and global averages of 40.5% and 40.2%, respectively. Finally, in the labor freedom category, Lebanon's score of 57.0% is below the worldwide average of 62.1% and the MENA average of 64.0%, suggesting relatively rigid labor regulations.

► CORPORATE NEWS

Midclear Lebanon selects Path Solutions as key technology partner

Midclear, the custodian and clearing center of financial instruments for Lebanon and the Middle East, selected Path Solutions, a multi-award winner global provider of banking software and the first IT firm certified by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as its key technology partner.

Midclear was on a quest to find a comprehensive solution that would be able to sustain its diverse operational requirements in the administration of mutual funds, multi family funds, and Special Purpose Vehicles (SPVs), while ensuring that the acquired solution would support Midclear's future offerings and overall growth plan.

iMAL, developed by Path Solutions, would enable Midclear to offer a complete innovative and integrated range of services to customers, whether banks, custodians or broker/dealers, according to company sources.

Apart from ensuring the efficient exchange of information between the managers of mutual funds and Midclear, the company would also use iMAL for transforming and routing transactions, according to the same source.

Midclear builds, manages, and operates a central securities depository, central registrar and clearing and settlement of Lebanese securities.

Peppers & Rogers Group opens new office in Beirut

Peppers & Rogers Group, a management consulting firm, recently announced the opening of its Beirut office.

The new office is part of the firm's ongoing objective to serve the Middle East with management consultants that combine its global customer strategy expertise with local knowledge.

Peppers & Rogers Group currently operates offices on six continents across the globe. This new office would be the fourth to be located in the Middle East region.

Peppers & Rogers Group has developed a methodology to help clients turn customer data into actionable insight that would drive bottom line results, according to company officials. The new office would bring this expertise to the region and help innovative businesses in various areas including finance, telecommunications and government, according to the same source.

El Ajouz Travel extends its agreement with Sabre

El Ajouz Travel, a Lebanese travel agency, has signed a three-year extension to its existing agreement with Bahrain-based Sabre Travel Network Middle East, a travel solutions provider.

As per the agreement, El Ajouz would be exclusively using the Sabre Global Distribution System (GDS) for all its reservation needs.

Sabre Travel Network provides travel technology solutions such as multi-channel retailing, merchandising and procurement to enable over 55,000 travel agencies and thousands of corporations and government agencies to access, shop and book content from airlines, hotels, car rental companies, cruise lines, among other.

In parallel, earlier this year, as part of an educational initiative targeting entry level travel industry professionals around the region, Sabre signed its first training agreement with Al Manar University of Tripoli in northern Lebanon. Sabre currently provides a number of introductory and advanced courses related to its GDS.

iloubnan.info and Origami join their expertise

iloubnan.info, a web media portal and e-marketing specialist and Origami, a video communication specialist, are joining their expertise in order to offer Lebanese companies a package deal allowing them to showcase their products and services online.

Targeting primarily small to medium size companies, the package offered by iloubnan.info and Origami combines the production of a short presentation video of two to three minutes in a standardized format and its hosting on iloubnan.info portal at a discounted launching price. This new service would be offered as of January 2010.

iloubnan.info is an interactive multimedia portal that offers information to the Lebanese community in Lebanon and around the world, as well as to people interested in knowing more about Lebanon.

Origami specializes in the creation and production of video content for institutions and broadcasters alike with a particular focus on corporate video. The company is based in Beirut and has an office in Paris.

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► CAPITAL MARKETS

Money Market: Impressive growth in M4 ahead of Christmas

The overnight rate remained unchanged during this week, standing at its official level of 3.00% set by the Central Bank, within the context of continuous conversions in favor of the Lebanese Pound on the foreign exchange market. As to short-term Certificates of Deposits, the Central Bank of Lebanon sold during this week LP 60 billion in the 60-day category. Subsequently, total subscriptions in CDs reached LP 85 billion since the beginning of the year 2010 and were concentrated in the 60-day category.

On the monetary aggregates level, figures for the week ending 24h of December 2009 indicated an increase of LP 582 billion in local currency deposits, as a result of a LP 324 billion growth in LP time deposits and a LP 258 billion rise in LP demand deposits. In parallel, deposits in foreign currencies progressed by US\$ 224 million. These weekly variations compare to an average weekly increase of LP 265 billion for LP deposits since the beginning of the year 2009, and an average rise of US\$ 80 million in foreign currency deposits. Within this context, LP money supply (M2) expanded by LP 691 billion, versus an average weekly increase of LP 266 billion since the beginning of the year 2009. In addition, total money supply in its large sense (M4) widened by a significant LP 1,221 billion week-on-week, as compared to an average weekly increase of LP 408 billion since the beginning of the year 2009.

On a cumulative basis, since the beginning of the year 2009, money supply in its large sense (M4) expanded by LP 21,486 billion. This is the result of an important surge in local currency denominated time deposits of LP 13,469 billion, an increase in foreign currency deposits of LP 6,201 billion (US\$ 4,113 million), a rise in money supply (M1) of LP 537 billion, and a growth in Treasury bills held by the public of LP 1,279 billion.

Interest rates	08/1/09	31/12/09	26/12/08
Overnight rate	3.00%	3.00%	3.50% ↔
7 days rate	3.10%	3.10%	4.50% ↔
1 month rate	3.52%	3.52%	4.17% ↔
45-day CDs	3.77%	3.77%	4.40% ↔
60-day CDs	4.03%	4.03%	4.89% ↔

Treasury Bills Market: Further drop in average yields

Activity was almost absent on the secondary Treasury bills market during this week, as market players preferred to hold their LP portfolios in view of regular drops in average yields on the primary markets.

As to the primary market, the preliminary results of this week's auction (January 7, 2010) showed that the average yield on the three-month category remained unchanged at 4.55%, while the average yield on the six-month category declined by nine basis points to close at 5.63%, and the average yield on the five-year category dropped by 12 basis points to 7.62%. It is worth mentioning that the Central Bank of Lebanon allowed commercial banks to subscribe in full to the three-month category, while it allowed them to subscribe to 20% only of their bids in the six-month category and to 30% of their bids in the five-year category.

On the other hand, the Central Bank of Lebanon released this week the auction results for value date December 31, 2009 which showed that total subscriptions amounted to LP 500 billion, and were distributed as follows: LP 28 billion in the one-year category, LP 21 billion in the two-year category and LP 451 billion in the three-year category. These compare to maturities of LP 232 billion, resulting in a nominal surplus of LP 268 billion.

On a cumulative basis, total subscriptions amounted to LP 18,987 billion in 2009, and were distributed as follows: LP 3,408 billion in short-term categories (three-month and six-month categories), LP 4,085 billion in medium-term categories (one-year and two-year categories), LP 9,506 billion in three-year category, and LP 1,987 billion in the five-year category. These compared to maturities of LP 12,313 billion, which resulted in a nominal surplus of LP 6,674 billion in 2009.

Treasury bills	08/1/09	31/12/09	26/12/08
3-month	4.55%	4.55%	5.10% ↔
6-month	5.63%	5.72%	7.10% ↓
1-year	5.73%	5.73%	7.58% ↔
2-year	6.32%	6.32%	8.26% ↔
3-year	7.10%	7.10%	9.00% ↔
5-year	7.62%	7.74%	- ↓
Nom. Subs. (LP billion)		500	242
Short-term (3&6 mths)		-	80
Medium-term (1&2 yrs)		49	13
Long-term (3 yrs)		451	149
Long-term (5 yrs)		-	
Maturities		232	157
Nom. Surplus/Deficit		268	85

Foreign Exchange Market: The Central Bank's foreign assets hit US\$ 28.3 billion at end-2009

FC-to-LP conversions persisted during this week, yet in lower volumes relative to the previous weeks. The Central Bank of Lebanon continued to intervene as a buyer of the green currency surpluses at the lower end of its intervention

bracket (LP 1,501.00), while commercial banks traded the green currency at a rate hovering between LP 1,501.00 and LP 1,501.25.

Within this context, the Central Bank's latest bi-monthly balance sheet ending December 31, 2009 showed an increase in foreign assets of US\$ 259 million during the second half of December to reach an unprecedented high level of US\$ 28.3 billion at end-2009. Subsequently, the BDL's foreign assets covered 84.8% of LP money supply with this coverage ratio rising to 114.9% when accounting for gold reserves estimated at US\$ 10.0 billion at end-December 2009. Moreover, the BDL's foreign assets covered 21.0 months of imports. These ratios underscore the strong ability of the Central Bank to meet emerging demand for foreign currencies and defend the currency peg. On a cumulative basis, the Central Bank's foreign assets grew by an impressive US\$ 8.6 billion in 2009 due to the continuous strong flow of conversions from FC holdings to LP holdings, and the Bank's ongoing intervention on the FX market as a buyer of the green currency surpluses.

Exchange rates	08/1/09	31/12/09	26/12/08
LP/US\$	1,507.5	1,507.5	1,507.5 ↔
LP/£	2,416.22	2,389.24	2,221.60 ↓
LP/¥	16.19	16.34	16.66 ↑
LP/SF	1,457.08	1,451.33	1,401.80 ↓
LP/Can\$	1,458.78	1,436.12	1,236.37 ↓
LP/Euro	2,159.04	2,159.95	2,120.00 ↑

Stock Market: Low trading volumes with tiny rise in prices

The Beirut Stock Exchange started the year 2010 with a weak activity. In fact, the total trading value was limited to US\$ 8.3 million versus a weekly average of US\$ 17.8 million in 2009. The BSE price index rose by 0.9% to reach 145.39. The average daily trading value retreated slightly from US\$ 2.14 million last week to US\$ 2.06 million this week, which

Audi Indices for BSE	08/1/09	31/12/09	26/12/08
<i>22/1/96=100</i>			
Market Cap. Index	512.40	505.10	392.07 ↑
Trading Vol. Index	86.93	115.58	50.43 ↓
Price Index	145.39	144.04	113.40 ↑
Change %	0.94%	0.91%	-1.71% ↑
Market Cap. \$m	12,156	11,983	9,301 ↑
No. of shares traded	308,707	248,012	372,788 ↑
Value Traded \$000	8,254	6,434	4,550 ↑
o.w. : Solidere	3,384	2,055	3,182 ↑
Banks	4,711	4,375	1,329 ↑
Others	159	4	39 ↑

resulted in a decline in the trading volume index of 3.8% to reach 86.93.

In details, Solidere shares captured 41.0% of activity this week. Solidere "A" share price edged down by 0.1% to close at US\$ 23.96, while Solidere "B" share price increased by 1.0% to close at US\$ 24.02. As to the banking stocks, they accounted for 57.1% of the total. Bank Audi's GDR price rose by 2.2% to close at US\$ 91.00, and its "listed" share price increased by 2.5% to US\$ 85.00. In parallel, BLOM's GDR price moved up by 0.3% to close at US\$ 90.05 while its "listed" share price stood at US\$ 84.00. Byblos Bank's "listed" share price increased by 1.0% to US\$ 2.11, and its "priority shares" price rose by 0.5% to US\$ 2.11. Among the industrial shares, Holcim's share price edged down by 0.2% to US\$ 12.50. Rymco's share price declined slightly by 0.2% to US\$ 3.14.

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All in all, the BSE's performance came in line with other emerging stock markets, as reflected by a 2.5% rise in the Morgan Stanley Capital International Emerging Market Free Index (MSCI EM). Likewise, the BSE performed almost similarly to other Arabian markets, as reflected by a 2.4% increase in the Morgan Stanley Capital International Arabian Markets Index (MSCI Arabian Markets) and a 2.2% progression in the Morgan Stanley Capital International GCC Countries Index (MSCI GCC Countries Index).

Bond Market: Growing local demand for Lebanese debt instruments

The Eurobond market was underpinned by a growing local demand for Lebanese debt instruments during this week, which translated into a rise in prices as reflected by a 35 basis points drop in the average yield to reach 4.96%.

The average spread shrank by a significant 37 basis points week-on-week to reach 253 basis points due to an important drop in Lebanese yields and a rise in benchmark yields. For instance, the 5-year US Treasury yield rose from 2.62% last week to 2.66% this week, as investors grew nervous ahead of a major employment report.

Eurobonds Indicators	08/1/09	31/12/09	26/12/08
Total tradable size \$m	17,704	17,704	17,173 ↔
o.w.: Sovereign bonds	17,134	17,134	16,603 ↔
Average Yield	4.96%	5.31%	8.88% ↓
Average Spread	253	290	755 ↓
Average Life	4.55	4.57	4.65 ↓
Yield on US 5-year note	2.66%	2.62%	1.32% ↑

ARAB STOCK MARKETS INDICES:

	8-Jan-10	1-Jan-10	31-Dec-09	Weekly change	End-year-to-date change
Lebanon	145.4	144.0	144.0	0.9%	0.9%
Jordan	150.1	149.9	149.9	0.1%	0.1%
Egypt	814.7	785.5	784.9	3.7%	3.8%
Saudi Arabia	400.0	389.3	389.3	2.7%	2.7%
Qatar	614.6	608.3	611.1	1.0%	0.6%
UAE	237.6	228.8	229.3	3.9%	3.6%
Oman	867.0	839.0	837.2	3.3%	3.6%
Bahrain	328.5	332.5	331.9	-1.2%	-1.0%
Kuwait	559.7	557.5	554.5	0.4%	0.9%
Morocco	435.9	416.2	417.0	4.7%	4.5%
Tunisia	1,242.0	1,183.7	1174.1	4.9%	5.8%
Arabian Markets	481.9	470.8	470.5	2.4%	2.4%

Sources: MSCI Barra, Bank Audi's Research Department

INTERNATIONAL MARKET INDICATORS:

	8-Jan-10	1-Jan-10	31-Dec-09	Weekly change	End-year-to-date change
EXCHANGE RATES					
YEN/\$	93.52	92.26	92.46	1.4%	1.1%
\$/£	1.586	1.585	1.589	0.1%	-0.2%
\$/Euro	1.427	1.433	1.432	-0.4%	-0.3%
STOCK INDICES					
DOW JONES INDUSTRIAL AVERAGE	10,618.19	10,428.05	10,548.51	1.8%	0.7%
S&P 500	1,144.98	1,115.10	1,126.42	2.7%	1.6%
NASDAQ	2,317.17	2,269.15	2,291.28	2.1%	1.1%
CAC 40	4,045.14	3,936.33	3,935.50	2.8%	2.8%
Xetra Dax	6,037.61	5,957.43	5,957.43	1.3%	1.3%
FT-SE 100	5,534.24	5,412.88	5,397.90	2.2%	2.5%
NIKKEI 225	10,798.32	10,546.44	10,546.44	2.4%	2.4%
COMMODITIES					
GOLD OUNCE	1,136.10	1,096.35	1,095.70	3.6%	3.7%
SILVER OUNCE	18.44	16.84	16.83	9.5%	9.6%
BRENT CRUDE (barrel)	80.73	77.66	77.66	4.0%	4.0%
LEADING INTEREST RATES (%)					
1-month Libor	0.23	0.23	0.23	0.00	0.00
US Prime Rate	3.25	3.25	3.25	0.00	0.00
US Discount Rate	0.50	0.50	0.50	0.00	0.00
US 10-year Bond	3.83	3.84	3.84	0.00	0.00

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