The Lebanon Weekly Monitor

Week 40
Sep 28 - Oct 4
2009

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The IMF has released this week its Global Economic outlook, in which it revised its real growth forecast for Lebanon to 7% in 2009, up from 3.5% in its previous global economic outlook published in April 2009.

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J.P. Morgan issued this week its latest Emerging Markets Outlook and Strategy on Lebanon. By reviewing economic performance indicators, the country has been standing firm towards the financial crisis and political difficulties as per the U.S. bank.

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Solidere kicks-off retail activity in the newly opened Beirut Souks project ahead of the project's grand opening by the end of the year. Beirut Souks have been rebuilt in their same original location, in Downtown, Beirut.

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Lebanese capital markets remained quiet during this week, as all market players' eyes focused on talks regarding the cabinet formation. On the stock market, prices closed 0.2% lower, in line with a negative change of 0.7% in other emerging markets, while the Arabian markets moved up by 1.3% week-on-week. On the bond market, activity increased week-on-week and prices rose. However, the average bond spread expanded by six basis points to 362 basis points due to a decrease in Lebanese yields and higher drop in benchmark yields. As to the money market, LP deposits reported an impressive rise of LP 470 billion week-on-week, while FX deposits surged by a staggering LP 735 billion (the equivalent of US$ 488 million), which led to a weekly hike of LP 1,138 billion in the money supply (M4). The overnight rate stood at 3.25% this week, within the context of continuous conversions in favor of the Lebanese Pound on the foreign exchange market, and as the Central Bank of Lebanon accepted a small percentage of bids offered by commercial banks during this week's Treasury bills' auction.

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IMF forecasts Lebanon's real GDP growth to be the second highest in the MENA region in 2009 at 7%

The IMF has released this week its World Economic outlook, -in which it revised its growth forecast for Lebanon to 7% in 2009 (from 3.5% in its previous global economic outlook published in April 2009). The Middle East growth was maintained at 2%, yet still higher than the global benchmark of -1.1% (which has slightly improved from -1.4% in April 2009). Below are the new forecasts for the various countries of the region, where Lebanon is believed to record this year the second highest growth in MENA, just after Qatar. The IMF literally stated in its global economic outlook that "Lebanon continues to demonstrate strong resilience to the global crisis because improved security conditions have buoyed economic activity, particularly in tourism and financial services."

New IMF real GDP growth forecasts

(Sorted by 2009 growth in MENA)

Rank	Country/Region	2009F
1	Qatar	11.5%
2	**Lebanon**	**7.0%**
3	Morocco	5.0%
4	Egypt	4.7%
5	Iraq	4.3%
6	Yemen	4.2%
7	Oman	4.1%
8	Sudan	4.0%
9	Syria	3.0%
10	Jordan	3.0%
11	Bahrain	3.0%
12	Tunisia	3.0%
13	Mauritania	2.3%
14	Algeria	2.1%
15	Libya	1.8%
16	Iran	1.5%
17	UAE	-0.2%
18	Saudi Arabia	-0.9%
19	Kuwait	-1.5%
Benchmarks		
-	Middle East	2.0%
-	Emerging Markets	1.7%
-	Advanced Countries	-3.4%
-	World	-1.1%

** IMF figures published on October 1, 2009*

Deposit dollarization reaches 66.0% at end-August 2009 its lowest level since the year 2000

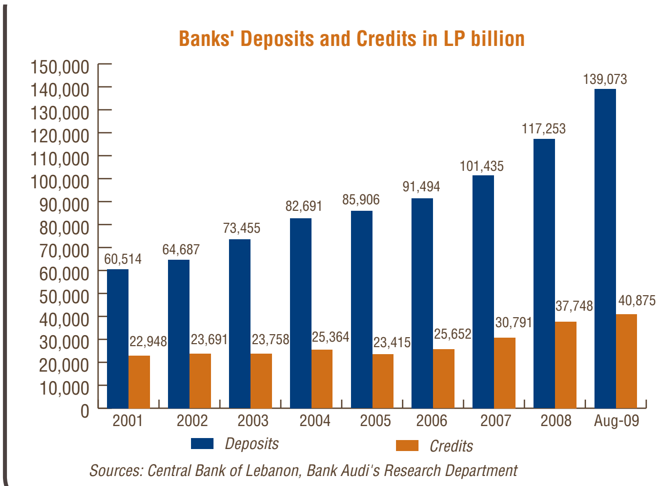
Lebanon's banking sector has continued to demonstrate in the eighth month of the year the resilience that it has continuously shown throughout each and every month of 2009 so far. As a matter of fact, in August 2009, total deposits of commercial banks went up by US$ 1,617.8 million, 2.0 times higher than the growth of US$ 808.3 million reported in the same month of the previous year, while assets went up US$ 1,990 million, almost 3.6 times the growth witnessed in August 2008.

Between December 2008 and August 2009, total bank assets grew by US$ 13.1 billion, the equivalent of 13.9%, 1.5 times higher than the growth reported over the corresponding period of 2008, and nearly 3.5 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 eight months of 2009 was 1.5 times the growth reported in the first eight months of 2008 and around 4.3 times the average growth reported over the previous six years. Bank deposits progressed by a healthy 14.8% this year's first eight months, moving from LP 117,253 billion at end-December 2008 to LP 134,626 billion at end-August 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 58.2% by LP deposits. LP deposits actually grew by US$ 6,704 million, while FX deposits rose by US$ 4,821 million over this year's first eight months. This actually favored a further decline in dollarization from 69.6% in December 2008 to 65.9% in August 2009, its lowest level since the year 2000. In parallel, close to 30% of the deposits growth was accounted for by non-residents deposits which rose by LP 5,043 billion, raising their share in aggregate deposits from 14.8% at end-December 2008 to 16.6% at end-August 2009.

Within the context of tight credit conditions across the globe and banks' increased cautiousness with regards to lending, the first eight months of 2009 witnessed a slowdown in lending activity growth in Lebanon. Bank loans to



the private sector posted a positive growth of US$ 2.1 billion, or 8.3%, over the covered period, much lower than the US$ 4.3 billion high of last year's corresponding period, yet exceeding the average growth of the past six years of US$ 1.2 billion and in a period of deleveraging across global financial sectors. This could be attributed to the relatively large flexibility at Lebanese banks characterized by high liquidity and significant operating surpluses. Indeed, since March 2009, total loans of commercial banks in Lebanon have maintained a continuous upward trend at a time when several banks across the region were witnessing a contraction in their lending activity.

Capital inflows up by 29% in the first eight months of 2009

Capital inflows into Lebanon have managed to more than fully cover the country's structural trade deficit, thereby resulting in a peak balance of payments surplus in the first eight months of 2009. 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$ 12,948 million, and rising by a considerable 28.7% year-on-year.

Capital flows into Lebanon through the said period have flown through several channels, namely, non-resident deposit flow, which went up by US$ 3,345 million, as well as foreign direct investments and cash transfers to tourists visiting Lebanon. The latter channel definitely played in favor of capital inflow into Lebanon, in congruence with the upsurge in tourism activity, while FDI did not report a contraction in the first eight months of 2009 as mirrored by the 15.1% surge in imports of investment goods.

Balance of payment surplus reaches new record high of US$ 4.4 billion in the first eight months of 2009

The sturdy influx of capital into the country over the first eight months of 2009 resulted in a cumulative balance of payments surplus of US$ 4,367 million, a record high for Lebanon, and up from a surplus of US$ 2,013 million in the first eight months of 2008. As a matter of fact, the balance of payments surplus in the first eight months of the year surpasses that registered in full-year 2008, which marked a yearly peak for Lebanon, bearing in mind that the IMF and other international agencies are praising the country's balance of payments surplus and are citing it as one of the main factors behind the country's resilience against the global crisis.

The cumulative surplus in the first eight months of 2009 is the result of a rise of US$ 5,817.7 million in net foreign assets of the Central Bank, which more than offset the decline of US$ 1,450.7 million in those of banks and financial institutions.

During the month of August 2009, the balance of payments saw a surplus of US$ 1,019.6 million, the second highest in 2009, so far, following that of July. This surplus is almost three times that registered in August 2008.

Foreign trade activity up by 1.0% in the first eight months of 2009

Despite the global economic turmoil, Lebanon's external trade activity managed to grow in the first eight months of 2009 relative to the same period of 2008, with import activity mainly remaining on solid grounds during the said year.

Aggregate imports and exports totaled US$ 12,897 million in the first eight months of 2009, up by 1.0% from the same period of last year. Imports amounted to US$ 10,739 million, up by 3.5% from their value in the first eight months of 2008, signifying strong domestic demand in Lebanon in times of a global economic meltdown. In particular, imports of investment goods witnessed an upsurge of 15.1% in the first eight months of 2009, which reflects positively on investment activity in Lebanon amidst the global economic crisis.

It is worth noting that such a nominal increase in import activity in the first eight months of the year comes in spite the fact that oil prices were 50% than they were in the same period of 2008, and the exchange rate of the Euro against the dollar is 12% lower than it was in the first eight months of 2008, noting that oil imports constitute 20% of total imports, while imports from the Euro area account for around 30% of total imports Thus, if one were to account for the aforesaid two declines, the real value of imports would record a 28.8% escalation.

Export activity, in parallel, had been on the rise up until the end of the first half of 2009, nonetheless in July and August, it registered respective year-on-year plummets of 25.3% and 15.2%, thereby leading to a year-on-year decline of 7.7% in total exports in the first eight months of 2009. Such a decline in export activity signifies dwindling external demand, and is due to negative spillovers of the global economic meltdown on Arab countries, the main importers of Lebanese products.

In the first eight months of the year, the strong growth in imports within the context of a decline in exports has resulted in a 6.8% widening of the trade deficit from US$ 8,037 million in the first eight months of 2008, to US$ 8,581 million in the same period of 2009. Furthermore, the export-to-import coverage ratio regressed from 22.5% in the first eight months of 2008 to 20.1% in the same period of this year.

J.P. Morgan finds Lebanon resilient to global downturn and political obstacles

J.P. Morgan issued this week its latest Emerging Markets Outlook and Strategy on Lebanon. By reviewing economic performance indicators, the country has been standing firm towards the financial crisis and political difficulties as per the U.S. bank. The said findings are mainly reflected by the inflows of capital and tourism.

The report commended the performance of the tourism sector as the number of incoming tourists jumped by a staggering 60.7%, amounting to 761,265 in the first half of 2009 versus 473,574 in the same period of 2008. Thus, the sector is projected to contribute by more than 9% to GDP up to the end of 2009 according to J.P. Morgan, which enhances considerably employment in the country. Such a contribution mirrors the confidence resulting from the elections and that the delay in the Cabinet formation hasn't taken its toll on the country's tourism sector.

As for capital inflows, they reached a monthly average of US$ 1 billion during the first seven months of the year which aided in posting record foreign currency reserves of US$ 22 billion at end-July 2009. Moreover, as a result of high interest rates offered on deposits in US Dollars locally against the rest of the world, capital inflows will maintain the same level up to the first half of 2010 as per J.P. Morgan. On top, the 5-year Credit Default Swaps have resisted to the escalation of the financial crisis with spreads prone on being constant at 300 basis points in the fourth quarter of 2009.

However, no sustainable solution has been found to curtail the effect of the Electricity sector losses on the resources of the state. As a matter of fact, the government's budget posted a deficit of US$ 1.3 billion in the first half of 2008, expanding to US$ 1.6 billion at-end June 2009. The latter might widen to US$ 2.9 billion (9.4% of GDP) for the fiscal year as the Government keeps baring the brunt of the EDL in the near term, despite the anticipated slight decrease of such expenditures. On the other hand, the debt to GDP ratio will sustain its descending tendency attributable to the primary budget remaining positive.

The report also noted a decrease in inflation, which lifted households' purchasing power as signaled in the report. Still, it is foreseen that the impact of the pre mentioned trends will weaken in the fourth quarter of 2009 bringing back inflation to positive but low figure at end-2009.

Finally, when observing the country's defiance towards the financial crisis, J.P. Morgan will maintain its marketweight exposure regardless of the political standstill. Nevertheless, although Lebanon is predicted to perform adequately in the second half of 2009, the Lebanon Emerging Market Bond Index might contract only to a limited extent which might raise the spread to the EMBI Global by end-2009 as per J.P. Morgan.

Merril Lynch sees Lebanon's strong banking sector and its BOP surplus limiting its sovereign risk

In its most recent report on the Macroeconomic developments in the MENA region in light of the global economic recession, Bank of America-Merril Lynch noted that the Lebanon's outstanding performance has helped the country to successfully evade the global recession, thanks to the exceptional performance of its banking system and its remarkably high balance of payments surplus, which have both been major deterrents for any sovereign risk facing the economy. Indeed, while the global economy has been struggling with its worst recession of modern times, Lebanon is likely to have enjoyed an average 7.2% GDP growth in 2008-09, as per Merril Lynch.

As banks are the main holder of Lebanese debt, an increase in deposits has helped to bring down bond yields, and this trend is unlikely to be reversed in the short term. In fact, a period of turmoil for global banks has turned into a propitious harvest for Lebanese banks owing to strong domestic activity, repatriation of Lebanese savings, lower global rates and tightening regulation on banking secrecy elsewhere. Total deposits are growing almost at an annualized 25%, as per Merril Lynch. Meanwhile, the balance of payments has generated a surplus of US$ 3.3 billion as of July 2009, and the Central Bank has increased its official reserves by 60% to US$ 24 billion as of June 2009. Stable politics and a normalized security situation have turned Lebanon once again into a hot tourism destination in the region, with tourist numbers up by 45% year-on-year. The surged FDI of US$ 3.6 billion in 2008 (14.4% of GDP) also confirms the confidence in the economy.

The report noted that the turning point for the Lebanese economy was the Doha agreement reached in May 2008, more than the global banking crisis later in the year. The result was a quick rebound in domestic economic activity. The gloomy global outlook and low interest rates across the globe further fuelled this recovery via increasing capital inflows to Lebanon's resilient banking sector.

Merril Lynch also indicated that the strong bounce back in economic activity helped to mend the large budget deficit, despite the usual fiscal pressures prior to June 2009's parliamentary elections. In the first half of 2009, general budget revenues increased 28% compared to 17% increase in expenditures. Accordingly, the primary surplus increased 34% and is running at close to 2% of GDP this year. Given the outperforming revenues, if the expenditures could be kept under control, the budget deficit could come down from 10% of GDP in 2008 to 9% of GDP this year, with further improvement to 8.2% in 2010.

Nonetheless, the study pinpointed that lowering Lebanon's high indebtedness requires more than modest primary surpluses, and privatization remains the key. Also, the planned tax reform that would increase VAT from 10% to 15%, and legislation of a global income tax bill, remains the short-term structural priorities, as per Merril Lynch.

Solidere kicks-off Beirut Souks retail activity

Solidere kicks-off retail activity in the newly opened Beirut Souks project ahead of the project's grand opening by the end of the year. Beirut Souks have been rebuilt in their same original location, in Downtown, Beirut.

The project would include 17 restaurants, three of which would open before the end of the year. The southern area would comprise 200 retail outlets over 30,000 square meters.

The upcoming northern area would be delivered progressively over the next three years in two distinct phases, one consisting of a 14 cinema entertainment complex equipped with state of the art technologies, and the other consisting of a major department store with a landmark architecture, over 10,000 square meters.

This flagship project by Solidere aims at restoring Beirut's pioneering stature on the regional and international scenes: a business hub and an ultimate touristic and cultural destination that attracts businessmen, investors, tourists and shoppers from all over the region.

Further, the project creates employment opportunities through the participation of a large number of Lebanese architecture, engineering and construction firms and other commercial institutions.

AMIDEAST to open Cisco Entrepreneur Institute training centers in Lebanon, Morocco, and Oman

AMIDEAST and Cisco Entrepreneur Institute (CEI) signed an agreement to establish training centers in Lebanon, Morocco, and Oman. Scheduled to begin later in the fourth quarter of 2009, courses would include "Starting a Business," "Growing a Business," "iExec Enterprise Essentials," and "The Entrepreneurial Mindset." Stanford and Cornell universities, ranked among top graduate schools of business, are among the CEI curriculum and training partners providing content and learning resources for the workshops.

AMIDEAST and the Cisco Entrepreneur Institute are collaborating to provide training that would help translate the region's entrepreneurial potential into new jobs and economic growth.

Cisco established the CEI in 2007 to foster entrepreneurship around the globe and to enable individuals, businesses, and governments to participate fully in the global networked economy. Cisco's mission is to help communities and nations harness the power of entrepreneurship for economic and social prosperity.

Cisco Entrepreneur Institute training centers provide valuable local and regional expertise to help entrepreneurs grow their businesses and develop innovative solutions and opportunities that meet the challenges in all market economies, according to CEI executives.

America-Mideast Educational and Training Services Inc. (AMIDEAST) is a private, nonprofit organization that provides programs and services to improve educational opportunities and quality, strengthen local institutions and develop language and professional skills for success in the global economy.

Founded in 1951, AMIDEAST is headquartered in Washington, DC, and has a network of field offices in Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Tunisia, United Arab Emirates, West Bank/Gaza, and Yemen.

Alfa installs 7 new radio stations since September 2009

Alfa, one of Lebanon's mobile phone networks, managed by Orascom Telecom lately announced it has installed 7 new radio stations since September 2009.

As Such, Since February 2009, 154 stations have been installed progressively in the different regions and several update operations have been implemented in addition to the expansion of 378 existing radio base stations. This would allow the mobile operator to enhance the quality of transmission, improve the network coverage and increase its capacity to support the subscribers' traffic and growth.

In compliance with this strategy, the company has installed the new stations in Hadatha (South Lebanon), Tripoli (North Lebanon), Wadi El Laymoun (Jezzine), Miniara (North Lebanon), Niha (Bekaa), Furn el Chebbak, and Dahr El Baidar (Bekaa).

Orascom Telecom is a leading international Telecommunications company operating GSM networks in high growth markets in the Middle East, Africa and south Asia, having a total population under license of approximately 510 million with an average mobile telephony penetration of approximately 45% as of June 30th, 2009. OTH was also awarded the management contract of one of the two Lebanese mobile Telecommunications operators ("Alfa") from the government of the Republic of Lebanon in February 2009.

Money Market: High level of LP liquidity available at hand

With commercial banks still enjoying high level of local currency liquidity due to continuous conversions in favor of the Lebanese Pound on the foreign exchange market and the low level of subscriptions allowed on the primary Treasury bills market, the overnight rate barely traded this week at its low official level of 3.25% set by the Central Bank of Lebanon. As to short-term Certificates of Deposits, the Central Bank sold this week LP 130 billion in the 60-day category, which brought total subscriptions in CDs since the beginning of the year 2009 to LP 777 billion distributed as follows: LP 141 billion in the 45-day category, and LP 636 billion in the 60-day category.

On the monetary aggregates level, figures for the week ending 17th of September 2009 indicated an increase of LP 470 billion in local currency deposits, as a result of a LP 294 billion growth in LP time deposits and a LP 176 billion rise in LP demand deposits. In parallel, deposits in foreign currencies progressed by US$ 488 million. These variations compare to an average weekly increase of LP 262 billion for LP deposits since the beginning of the year 2009, and an average rise of US$ 77 million in foreign currency deposits. Within this context, LP money supply (M2) expanded by LP 433 billion, versus an average weekly increase of LP 267 billion since the beginning of the year 2009. Total money supply in its large sense (M4) widened by LP 1,138 billion week-on-week, compared to an average weekly increase of LP 409 billion since year-end 2008.

On a cumulative basis, since the beginning of the year 2009, money supply in its large sense (M4) expanded by LP 15,776 billion. This is the result of an important surge in local currency denominated time deposits of LP 9,634 billion, an increase in foreign currency deposits of LP 4,940 billion (US$ 3,277 million), a rise in money supply (M1) of LP 334 billion, and a growth in Treasury bills held by the public of LP 868 billion.

Interest rates	02/10/09	25/09/09	26/12/08	
Overnight rate	3.25%	3.50%	3.50%	⇔
7 days rate	3.36%	4.50%	4.50%	⇔
1 month rate	3.79%	4.17%	4.17%	⇔
45-day CDs	4.40%	4.40%	4.40%	⇔
60-day CDs	4.89%	4.89%	4.89%	⇔

Treasury Bills Market: No offer on the secondary market

Market players were increasingly seeking this week to invest in the secondary Treasury bills market in view of the overabundance of local currency liquidity at hand, especially that the Central Bank of Lebanon has allowed commercial banks this week to subscribe in 10% only of their bids (offering a yield between 8.11% and 8.25%) in the five-year category. However, the demand on the secondary market was not met by any offer.

As to the primary market, the preliminary results of this week's auction (September 30, 2009) showed that the average yields on the three-month, six-month and five-year categories went down by four to eight basis points.

On the other hand, the Central Bank of Lebanon released this week the auction results for value date September 24, 2009, which showed that total subscriptions amounted to LP 707 billion, and were distributed as follows: LP 81 billion in the one-year category, LP 211 billion in the two-year category and LP 415 billion in the three-year category. This compared to maturities of LP 422 billion, resulting in a nominal surplus of LP 285 billion. The yield on the one-year category retreated slightly by two basis points to 6.34%, while the yield on the two-year category dropped by eight basis points to 6.98% and the yield on the three-year category fell by six basis points to reach 7.64%.

Treasury bills	02/10/09	25/09/09	26/12/08	
3-month	4.83%	4.87%	5.10%	↓
6-month	6.12%	6.16%	7.10%	↓
1-year	6.34%	6.34%	7.58%	⇔
2-year	6.98%	6.98%	8.26%	⇔
3-year	7.64%	7.64%	9.00%	⇔
5-year	8.20%	8.28%	-	↓
Nom. Subs. (LP billion)		707	242	
Short-term (3&6 mths)		0	80	
Medium-term (1&2 yrs)		292	13	
Long-term (3 yrs)		415	149	
Long-term (5 yrs)		0		
Maturities		422	157	
Nom. Surplus/Deficit		285	85	

Foreign Exchange Market: BDL's foreign assets hit US$ 25.7 billion at end-September 2009

The currency trading remained in favor of the Lebanese Pound during this week, with the volume of FC-to-LP conversions being higher relative to the previous week. Within this context, 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), while the inter-bank exchange rate ranged between LP 1,501.00 and 1,501.25.

In view of this favorable trend on the FX market, the Central Bank's latest bi-monthly balance sheet ending 30th of September 2009 showed that foreign assets rose by US$ 186 million during the second half of September to reach a new unprecedented high level of US$ 25.7 billion. Accordingly, the BDL's foreign assets covered 81.9% of LP money supply, with this coverage ratio rising to 111.4%, when accounting for gold reserves estimated at US$ 9.2 billion at end-September given the latest surge in gold prices in the global markets.

Exchange rates	02/10/09	25/09/09	26/12/08	
LP/US$	1,507.5	1,507.5	1,507.5	↔
LP/£	2,397.53	2,415.47	2,221.60	↑
LP/¥	16.87	16.66	16.66	↓
LP/SF	1,450.36	1,465.01	1,401.80	↑
LP/Can$	1,385.06	1,380.37	1,236.37	↓
LP/Euro	2,193.56	2,214.37	2,120.00	↑

Stock Market: Wait-and-see mood reigns over

The Beirut Stock Exchange was overwhelmed by a wait-and-see mood during this week, as all market players' eyes focused on talks regarding the cabinet formation. In fact, BSE stock prices maintained last week's levels, as reflected by a small change of -0.22% in the price index relative to the previous week to close at 136.32. The total trading value amounted to US$ 20.6 million this week versus US$ 24.5 million last week. The average daily trading value fell from US$ 6.1 million last week to US$ 4.1 million this week, which resulted in a 32.8% drop in the trading volume index to close at 175.90.

In details, Solidere shares captured 93.6% of activity this week. Solidere "A" share price increased by 0.9% to close at US$ 25.20, and Solidere "B" share price rose by 0.4% to reach US$ 24.97. As to the banking stocks, they accounted for 7.0% of the total. Bank Audi's GDR price declined by 3.5% to close at US$ 71.55, and the same bank's "listed" shares decreased by 4.5% to reach US$ 62.00. BLOM's GDR price moved down by 0.9% to close at US$ 84.25. Byblos Bank's "listed" share's price gained 8.0% to reach US$ 1.90, while its "priority shares" rose by 2.8% to reach US$ 1.86. Among the industrial shares, Holcim's share price jumped by 6.7% to US$ 16.00. As to the investment funds, the Beirut Preferred Fund's share price edged up by 0.3% to US$ 105.30.

Audi Indices for BSE	02/10/09	25/09/09	26/12/08	
22/1/96=100				
Market Cap. Index	469.57	470.63	392.07	↓
Trading Vol. Index	175.90	261.61	50.43	↓
Price Index	136.32	136.63	113.40	↓
Change %	-0.22%	3.09%	-1.71%	↓
Market Cap. $m	11,140	11,165	9,301	↓
No. of shares traded	964,437	1,602,416	372,788	↓
Value Traded $000	20,577	24,454	4,550	↓
o.w. : Solidere	19,062	10,224	3,182	↑
Banks	1,437	14,230	1,329	↓
Others	78	0	39	↑

All in all, the BSE's performance went in line with other emerging stock markets, as reflected by a 0.7% decrease in the Morgan Stanley Capital International Emerging Market Free Index (MSCI EM). However, the BSE fared worse than other Arabian markets, as reflected by a 1.3% rise in the Morgan Stanley Capital International Arabian markets Index (MSCI Arabian Markets).

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On a cumulative basis, the total trading value amounted to US$ 683 million during the first nine months of 2009 as compared to US$ 1,425 million during the corresponding period of 2008. The turnover ratio, measured by the annualized trading value to market capitalization, reached 8.2% during the first nine months of 2009, down from 14.0% during the corresponding period of 2008, which underscores the sluggish mood that weighed on the BSE due to the impasse over the cabinet formation.

Bond Market: Rising activity observed

The bond market was active during this week, as demand was relatively met by offer. Bond prices increased, as reflected by an 11 basis points decline in the average yield to reach 5.70%, while the average spread widened by six basis points to 362 basis points due to a decrease in Lebanese yields and a higher drop in benchmark yields. For instance, the average yield on the five-year US Treasury bills fell from 2.37% last week to 2.15% this week, after government data showed a bigger-than-expected drop in payrolls in September, rekindling worries over the vigor of an economic recovery.

Moreover, it is worth mentioning that the volume of the bond portfolio declined from US$ 17,515 million last week to US$ 17,506 million this week, due to the settlement of a US$ 150 million sovereign bond maturing on October 6, 2009.

In parallel, bond prices increased in other emerging markets, as reflected by a three basis points decline in the average yield to reach 5.58%, while the average spread widened by ten basis points to reach 384 basis points.

Eurobonds Indicators	02/10/09	25/09/09	26/12/08	
Total tradable size $m	17,506	17,515	17,173	↓
o.w.: Sovereign bonds	16,936	16,945	16,603	↓
Average Yield	5.70%	5.81%	8.88%	↓
Average Spread	362	356	755	↑
Average Life	4.55	4.53	4.65	↑
Yield on US 5-year note	2.15%	2.37%	1.32%	↓

ARAB STOCK MARKETS INDICES:

	02-Oct-09	25-Sep-09	31-Dec-08	Weekly change	End-year-to-date change
Beirut stock market	136.3	136.6	113.6	-0.2%	20.1%
Abu Dhabi securities market	n.a.	n.a.	47.0	n.a.	n.a.
Amman stock exchange	n.a.	n.a.	340.3	n.a.	n.a.
Bahrain stock exchange	n.a.	n.a.	156.5	n.a.	n.a.
Casablanca stock exchange	n.a.	n.a.	224.5	n.a.	n.a.
Doha securities market	n.a.	n.a.	142.7	n.a.	n.a.
Dubai financial market	n.a.	n.a.	60.3	n.a.	n.a.
Egypt capital market	n.a.	n.a.	240.1	n.a.	n.a.
Kuwait stock market	n.a.	n.a.	147.9	n.a.	n.a.
Muscat securities market	n.a.	n.a.	157.3	n.a.	n.a.
Saudi stock market	n.a.	n.a.	113.2	n.a.	n.a.
Tunis stock exchange	n.a.	n.a.	114.8	n.a.	n.a.
AMF composite	n.a.	n.a.	156.3	n.a.	n.a.

Source: Arab Monetary Fund

INTERNATIONAL MARKET INDICATORS:

	02-Oct-09	25-Sep-09	31-Dec-08	Weekly change	End-year-to-date change
EXCHANGE RATES					
YEN/$	88.86	90.09	90.92	-1.4%	-2.3%
$/£	1.590	1.601	1.4520	-0.7%	9.5%
$/Euro	1.462	1.471	1.3950	-0.6%	4.8%
STOCK INDICES					
DOW JONES INDUSTRIAL AVERAGE	9,487.67	9,665.19	8,776.39	-1.8%	8.1%
S&P 500	1,025.21	1,044.38	903.25	-1.8%	13.5%
NASDAQ	2,048.11	2,090.92	1,577.03	-2.0%	29.9%
CAC 40	3,649.90	3,739.14	3,217.97	-2.4%	13.4%
Xetra Dax	5,467.90	5,581.41	4,810.20	-2.0%	13.7%
FT-SE 100	4,988.70	5,082.20	4,434.20	-1.8%	12.5%
NIKKEI 225	9,731.87	10,265.98	8,859.56	-5.2%	9.8%
COMMODITIES					
GOLD OUNCE	1001.35	991.35	878.20	1.0%	14.0%
SILVER OUNCE	16.12	16.00	11.30	0.8%	42.7%
BRENT CRUDE (barrel)	66.83	64.57	39.83	3.5%	67.8%
LEADING INTEREST RATES (%)					
1-month Libor	0.24	0.25	0.45	-0.01	-0.21
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	3.22	3.32	2.22	-0.10	0.99

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