BLOMINVEST BANK SAL

Your Investment Reference

THE LEBANON BRIEF

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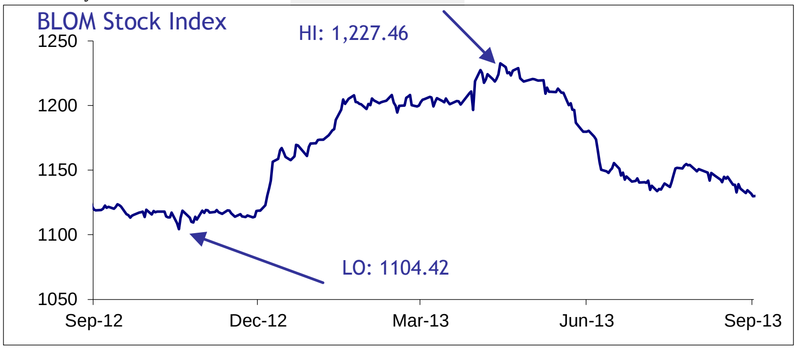
FINANCIAL MARKETS

Equity Market

Stock Market

	20/9/2013	13/9/2013	% Change
BLOM Stock Index*	1,126.99	1,133.78	-0.60%
Average Traded Volume	37,373	108,304	-65.49%
Average Traded Value	371,970	1,042,876	-64.33%

*22 January 1996 = 1000



Despite regional ease of events after Syria's approval to hand over its chemical arsenal, the absence of a consensual cabinet on the local scene kept on hindering the Beirut Stock Exchange performance this week. The BLOM Stock Index (BSI), Lebanon's main equity gauge, closed 0.60% lower at 1,126.99 points broadening its decline to 3.60% since year start. The weekly activity on the BSE was seen on lower volume and value with the daily average traded shares falling to 37,373 worth $371,970, lower than last week's volume of 108,304 shares worth $1.04M. As for the market capitalization, it tightened by a weekly $65.93M to attain $9.02B.

When comparing to regional and emerging markets, the Lebanese equity benchmark was the only index to post a negative weekly performance. Morgan Stanley (MSCI) Emerging Index increased by 3.24% to reach 1,022.54 points. S&P Pan Arab Composite Large Midcap Index and S&P AFE40 rose by 1.68% and 1.54% to stand at 124.71 points and 60.63 points, respectively.

Most of Arab Stock Exchanges rebounded for the second week in a row, with Dubai being the best performer this week as its bourse showed a 5.03% weekly improvement. Kuwait, Qatar and Abu Dhabi followed, gaining 3.44%, 2.61% and 2.48%, respectively. Three regional stock exchanges closed in the red this week with the Tunisian bourse revealing a 0.68% drop. The BSE came second, while the Jordanian stock exchange was the third loser with a weekly decrease of 0.46%.

Banking Sector

	Mkt	20/9/2013	13/9/2013	%Change
BLOM (GDR)	BSE	$8.50	$8.50	0.00%
BLOM Listed	BSE	$8.25	$8.25	0.00%
BLOM (GDR)	LSE	$8.50	$8.45	0.59%
Audi (GDR)	BSE	$6.29	$6.29	0.00%
Audi Listed	BSE	$6.12	$6.16	-0.65%
Audi (GDR)	LSE	$6.20	$6.20	0.00%
Byblos (C)	BSE	$1.51	$1.48	2.03%
Byblos (GDR)	LSE	$72.00	$72.00	0.00%
Bank of Beirut (C)	BSE	$19.00	$19.00	0.00%
BLC (C)	BSE	$1.95	$1.95	0.00%
Fransabank (B)	OTC	$28.00	$28.00	0.00%
BEMO (C)	BSE	$1.84	$1.84	0.00%

	Mkt	20/9/2013	13/9/2013	% Change
Banks' Preferred Shares Index *		104.26	104.23	0.03%
BEMO Preferred 2006	BSE	$101.00	$101.00	0.00%
Audi Pref. E	BSE	$101.50	$101.50	0.00%
Audi Pref. F	BSE	$100.10	$100.10	0.00%
Audi Pref. G	BSE	$100.00	$100.00	0.00%
Audi Pref. H	BSE	$100.00	$100.00	0.00%
Byblos Preferred 08	BSE	$100.00	$100.00	0.00%
Byblos Preferred 09	BSE	$100.00	$100.00	0.00%
Bank of Beirut Pref. E	BSE	$25.65	$25.65	0.00%
Bank of Beirut Pref. I	BSE	$25.50	$25.40	0.39%
Bank of Beirut Pref. H	BSE	$25.60	$25.60	0.00%
BLOM Preferred 2011	BSE	$10.15	$10.15	0.00%

* 25 August 2006 = 100

Real Estate

	Mkt	20/9/2013	13/9/2013	% Change
Solidere (A)	BSE	$10.75	$10.92	-1.56%
Solidere (B)	BSE	$10.72	$11.00	-2.55%
Solidere (GDR)	LSE	$10.50	$10.50	0.00%

Manufacturing Sector

	Mkt	20/9/2013	13/9/2013	% Change
HOLCIM Liban	BSE	$14.31	$15.68	-8.74%
Ciments Blancs (B)	BSE	$3.23	$3.23	0.00%
Ciments Blancs (N)	BSE	$3.24	$3.24	0.00%

Funds

	Mkt	20/9/2013	13/9/2013	% Change
BLOM Cedars Balanced Fund Tranche “A”	-----	$6,866.85	$6,883.10	-0.24%
BLOM Cedars Balanced Fund Tranche “B”	-----	$4,997.33	$5,009.64	-0.25%
BLOM Cedars Balanced Fund Tranche “C”	-----	$5,215.42	$5,227.76	-0.24%
BLOM Bond Fund	-----	$9,577.78	$9,577.78	0.00%

Retail Sector

	Mkt	20/9/2013	13/9/2013	% Change
RYMCO	BSE	$3.50	$3.50	0.00%
ABC (New)	OTC	$33.00	$33.00	0.00%

Tourism Sector

	Mkt	20/9/2013	13/9/2013	% Change
Casino Du Liban	OTC	$470.00	$480.00	-2.08%
SGHL	OTC	$7.00	$7.00	0.00%

The real estate sector dominated the BSE this week capturing around 80.54% of total trades, while the banking sector posted only a 19.29% contribution. The industrial sector also posted a timid 0.17% share of the week’s total trade. In the real estate sector, Solidere shares fluctuated over the week with classes A and B tumbling by 1.56% and 2.55% to reach $10.75 and $10.72, respectively.

The banking sector showed mixed performances with Byblos common shares edging up by 2.03% to $1.51, while Audi listed shares lost 0.65% to $6.12.

As for the BLOM preferred shares index (BPSI), it slightly rose by 0.03% to reach 104.26 points boosted by Bank of Beirut preferred shares class “I” weekly increase of 0.39% to $25.50.

Within the industrial sector, HOLCIM shares traded on Monday tumbling by 8.74% from their previous weekly close of $14.31.

Going forward, activity on the Beirut Stock Exchange is likely to remain dormant given the political uncertainty prevailing in the country. Investors remain skeptical about the future prospects of resolving the cabinet formation dilemma.

Meanwhile, on the London Stock Exchange, BLOM’s Global Depositary Receipts added 0.59% to $8.50.

Foreign Exchange Market

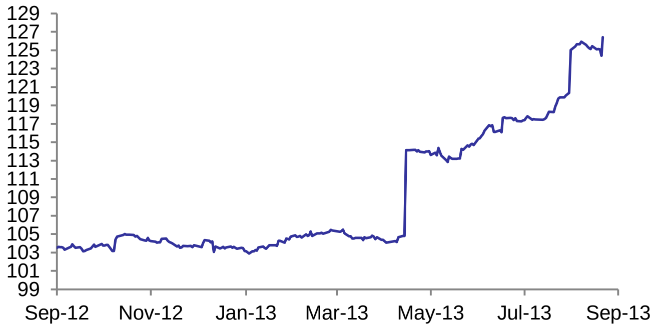
Lebanese Forex Market

	20/9/2013	13/9/2013	%Change
Dollar / LP	1,512.50	1,512.50	0.00%
Euro / LP	2,039.65	2,002.86	1.84%
Swiss Franc / LP	1,656.05	1,618.18	2.34%
Yen / LP	15.17	15.12	0.33%
Sterling / LP	2,418.48	2,383.06	1.49%
NEER Index**	126.40	125.44	0.77%

*Close of GMT 09:00+2
**Nominal Effective Exchange Rate; Base Year Jan 2006=100
**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

The Lebanese pound's peg to the US dollar remains contained in the same range of $/LP 1,510.5-$/LP 1,514.5, with a mid-price of $/LP 1,512.5. Foreign assets (excluding gold) at the Central Bank stood at $36.43B as of end July, 2% below end of June's $37.17B. Meanwhile, the dollarization rate of private sector deposits rose from 65.7% in June to 65.8% in July

Nominal Effective Exchange Rate (NEER)



On September 18th, and following a long stream of speculation, the Federal Open Market Committee abstained from reducing the pace of Treasuries and Mortgage-Backed Securities purchases, hence softening the dollar against the euro. In fact, the Fed remains highly concerned with the downside risks of a tighter monetary policy, especially that the economy remains exposed to risks of a slower housing recovery, fiscal tightening and crisis residues.

By Friday September 20th, 2013, 12:30 pm Beirut time, the euro closed at €/$ 1.35 up by a weekly 1.84%. As for the dollar-pegged LP, it depreciated to €/LP 2,039.65 from €/LP 2,002.86 recorded on Friday September 13th. The Nominal effective exchange rate (NEER) rose by 0.77% over the cited period to 126.40 points, while its year-to-date performance stood at 21.76%.

Money & Treasury Bills Market

Money Market Rates

	20/9/2013	13/9/2013	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day¤CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

Treasury Yields

	20/9/2013	13/9/2013	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

During the week ending September 5th, broad Money M3 widened by LP334B ($222M), to reach LP 163,814B ($108.67B). M3 growth rate reached 7.43% on a year-on-year basis and 3.73% from end of December 2012. As for M1, it expanded by LP207B ($137M) as the LP290B ($192.37M) increase in currency in circulation outweighed the LP83B ($55.06M) drop in demand deposits.

Total deposits (excluding demand deposits) widened by LP126.39B ($83.84M), given the LP53B fall in term and saving deposits in domestic currency and by the $119M upturn in deposits denominated in foreign currencies. During the period 29 August- 5 September, the broad money dollarization rate lost 1 basis point (bp) to reach 59.00% compared to its previous level of 59.01%. According to the Central Bank, the overnight interbank rate stood at 2.75% by the end of July 2013.

In the TBs auction held on September 12th, the Ministry of Finance raised LP165.463B ($109.76M) through the issuance of 3 Months (3M), 6M and 5 Year Treasury Bills. The highest demand was witnessed on the 5Y notes, capturing 81% of total subscriptions, while the 3M and 6M bills captured respective shares of 8% and 12%. The average discount rates for the 3M and 6M bills stood at 4.39% and 4.87% while the coupon rate for the 5Y notes registered 6.74%, respectively. New subscriptions exceeded maturing T-bills by LP138.184B ($91.66M).

Eurobond Market

Eurobonds Index and Yield

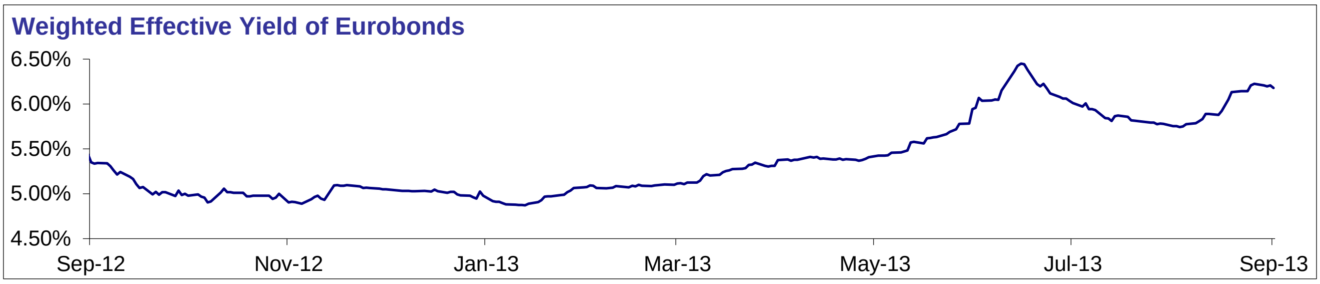
	19/9/2013	12/9/2013	Change	Year to Date
BLOM Bond Index (BBI)*	103.650	103.540	0.11%	-4.96%
Weighted Yield**	6.15%	6.18%	-3	113
Weighted Spread***	473	453	20	43

*Base Year 2000 = 100; includes US$ sovereign bonds traded on the OTC market
** The change is in basis points ***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	19/9/2013 Price*	12/9/2013 Price*	Weekly Change%	19/9/2013 Yield	12/9/2013 Yield	Weekly Change bps
2014, Apr - 7.375%	101.56	101.62	-0.05%	4.56%	4.55%	1
2014, May - 9.000%	102.72	102.79	-0.07%	4.48%	4.51%	-3
2015, Jan - 5.875%	101.64	101.69	-0.05%	4.58%	4.56%	2
2015, Aug - 8.500%	106.66	106.45	0.20%	4.75%	4.90%	-15
2016, Jan - 8.500%	107.32	107.39	-0.07%	5.12%	5.12%	1
2016, May - 11.625%	114.97	115.16	-0.16%	5.46%	5.43%	3
2017, Mar - 9.000%	109.66	109.78	-0.11%	5.91%	5.88%	2
2018, Jun - 5.150%	97.50	96.75	0.78%	5.76%	5.94%	-18
2020, Mar - 6.375%	98.31	98.10	0.21%	6.70%	6.74%	-4
2021, Apr - 8.250%	108.28	108.06	0.21%	6.83%	6.87%	-4
2022, Oct - 6.100%	94.82	95.00	-0.19%	6.88%	6.85%	3
2023, Jan - 6.00%	93.67	94.13	-0.50%	6.93%	6.86%	7
2024, Dec - 7.000%	100.06	100.36	-0.30%	6.99%	6.95%	4
2026, Nov - 6.600%	95.29	94.72	0.60%	7.16%	7.23%	-7
2027, Nov - 6.75%	95.36	94.83	0.55%	7.28%	7.34%	-6

*Bloomberg Data



Lebanon's stressed political environment didn't completely deter investors from purchasing Lebanese Eurobonds this week, as the country remained relatively stable compared to the past period when several political and security developments emerged. The Eurobonds market fluctuated in response to the absence of new cabinet with the BLOM Bond Index (BBI) closing at 103.65 points, edging up by a weekly 0.11%. The BBI's performance couldn't match that of JP Morgan emerging markets' bond index that edged up by 2.98% over the week to 629.20 points. Investors have been showing some interest in emerging markets this week, especially after the recent U.S news. In Lebanon, a solid demand characterized medium term maturities with investors staying away from long-term Eurobonds. Accordingly, the 5Y yield slid by 18 basis points (bps) to 5.76%, while the 10Y Lebanese Eurobonds increased by 7 bps to 6.93%.

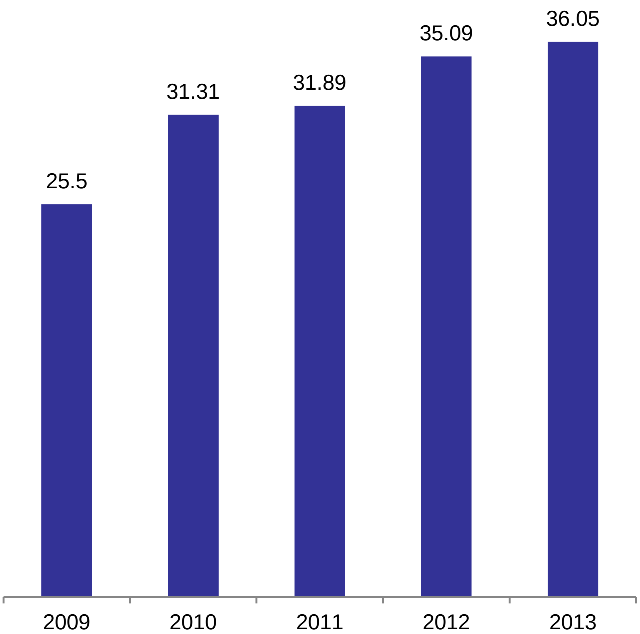
In the U.S, and contrarily to prospects, the FED announced on Wednesday the suspension of its decision to taper its $85M monthly bond-buying. The FED resolution was good news to Treasuries that posted their best performance in 2-months after investors went back to the safe assets market. In this context, 5Y and 10Y yields plunged by 23 bps and 16 bps to reach 1.49% and 2.76%, respectively. The 5Y and 10Y spreads between the Lebanese and U.S benchmarks broadened by 5 bps and 23 bps to end the week at 427 bps and 417 bps, respectively.

Lebanon's credit default swap for 5 years (CDS) was last trading on Friday at 361-389 bps, down from 383-412 bps a week earlier. In regional economies, insurance premiums on sovereign debt narrowed by an average 4 bps in Saudi Arabia to 58-66 bps and by almost 24 bps in Dubai to 184-204 bps. As for emerging economies, CDS quotes in Brazil tightened from 179-182 bps to 150-153 bps, while Turkey's CDS were last trading at 173-177 bps up from 164-168 bps last week.

ECONOMIC AND FINANCIAL NEWS

Foreign Assets at the Central Bank

Up to Mid-Sept (In $B)



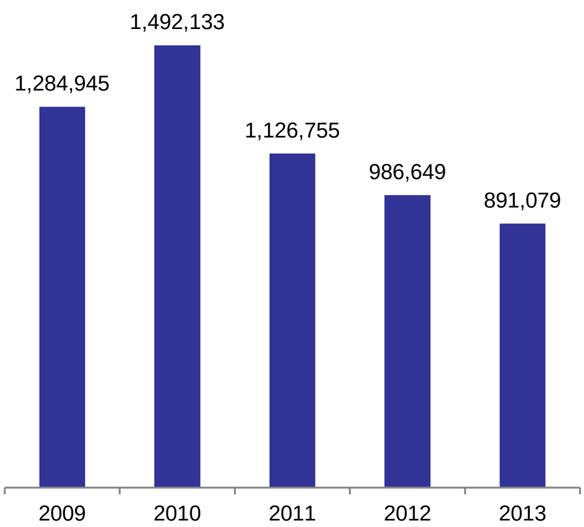
Source: Banque du Liban

Central Bank's Assets Barely Moved to $78.02B in Mid-September

The Central Bank's assets slid by a monthly 0.3% to reach $78.02B by mid-September, on the back of falls in the value of gold reserves and foreign assets. As the local political deadlock shows no signs of a near-resolution, the Central Bank pursues its efforts to preserve the Lebanese pound's peg to the US dollar by intervening on the foreign exchange market. Accordingly, foreign assets went from $36.61B in mid-August to $36.05B in mid-September. However, they remain at a high and comfortable level, covering 20 months of imports. Meanwhile, the value of gold reserves declined from $12.23B by mid-August to $12.08B by mid-September, following the trend of international gold prices. The demand for safe haven assets was first fueled by concerns over a Western strike on Syria but later eased on account of two events: First, President Obama requesting Congress to delay a vote on military action in Syria and second, the US and Russia agreeing on a diplomatic approach to the controversial Syrian chemical attack. Back to BDL's assets, the securities portfolio (including accrued interest owed to the Central Bank) edged up by a monthly 0.3% to reach $11.75B by mid-September. On the liabilities side, financial sector deposits registered a 0.4% m-o-m upturn to $57.94B while public sector deposits registered a 5.4% m-o-m decline to $5.94B by mid-September.

Number of Tourists

Up to August



Source: Ministry of Tourism

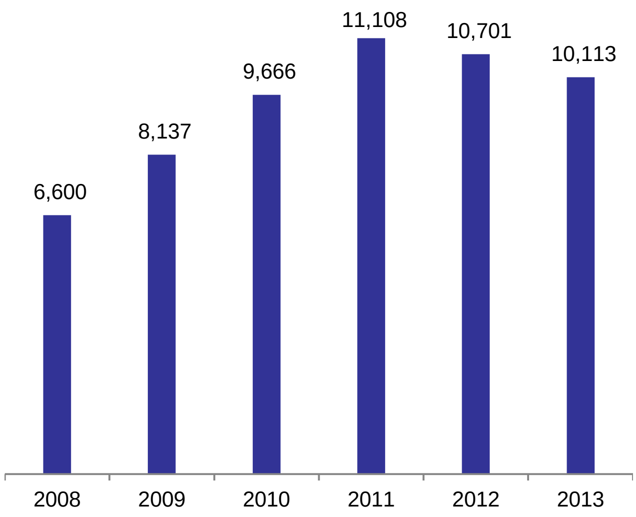
Tourists Arrivals Dropped to 891,079 up to August

The number of tourists arriving to Lebanon decreased by 9.69% y-o-y from 986,649 up to August 2012 to 891,079 up to August 2013. Compared to last year, the number of Arab tourists dropped by 18.76% from 335,561 to 272,602 during the above periods. For the month of August alone, total tourist arrivals increased by 19.46% y-o-y to reach 137,293 in 2013 compared to 114,929 in 2012. The highest touristic inflow emanated from European visitors, representing 35.6% of total tourist arrivals and amounting to 48,866 in August 2013, a 9.9% y-o-y increase. Tourists coming from France, Germany and England respectively accounted for 33%, 15% and 11% of total European tourists. Arab tourists, accounting for the second biggest share of total tourist arrivals with 31.32%, reached 42,997 in August 2013, a 39.42% y-o-y rise. In detail, Iraqi visitors constituted 39% of total Arab tourists, tracked by Jordanian, Egyptian and Saudi Arabian guests with shares of 20%, 13% and 9%, respectively. Meanwhile, the number of American tourists rose by 9.46% y-o-y to 24,805 in August, of which 48% came from the US, 35% from Canada and 7% from Brazil.

Number of Construction Permits Slid by 5.5% y-o-y up to July

According to the data released by the order of engineers of Beirut and the North, the number of permits decreased by 5.5% y-o-y from 10,701 permits up to July 2012 to 10,113 permits up to July 2013, extending its decline for the second year in a row. The construction area also decreased by 14.34% y-o-y to 7.53M square meters from last year's 8.79M sqm. As a result, the average sqm per permit has fallen by 9.36% y-o-y to reach 744.44 sqm per permit from 821.28 sqm per permit last year, which indicates that developers continue to target smaller plots of land for their projects. Regarding the month of July alone, the number of permits issued decreased by 7.74%, from 1,692 permits in July 2012 to 1,561 permits in July 2013. Despite the decrease in the number of permits issued, the authorized construction area broke the trend and increased by 6.14% from 1.20M sqm in July 2012 to 1.27M sqm in July 2013. As for the regional distribution, Mount Lebanon accounted for 43.82% of the permits issued in July 2013, followed by South Lebanon with 14.22% and Nabatiyeh with 11.4%.Bekaa, the suburbs and Beirut followed suit with shares of 10.51%, 10.25% and 5.83% respectively.

Number of Permits Issued up to July



Source: Order of Engineers of Beirut and the North

Value of Kafalat Loans Fell by 21.93% y-o-y up to August 2013

The decrease in the number of Kafalat guarantees goes in line with the continuous instability reigning over the region and discouraging entrepreneurship. Kafalat issued 536 guarantees up to August 2013 compared to 702 guarantees for the same period in 2012, which represents a 23.65% y-o-y drop. Consequently, the total value of granted loans dropped by 21.93% y-o-y, from $95.66M up to August 2012 to $74.68M up to August 2013. Following these figures, and given that the decrease in the number of granted loans is higher than the decrease in the value of these loans, the average loan value per project increased slightly by 2.25% y-o-y from $136,268 up to August 2012 to $139,330 up to August 2013. The sector that captured the most loans is still the agricultural sector with a share of 40.49% of the total, followed by the industrial sector and the tourism sector with shares of 33.96% and 17.54% respectively. The number of Kafalat loans in the tourism sector, suffering the most from the regional and local instability, fell by 45.74% y-o-y to reach 94 granted loans up to August 2013 from 137 granted loans up to August 2012. In fact, the number of tourists visiting Lebanon tumbled by 13.5% y-o-y up to July, as a result of the local and surrounding tumults. Based on a geographical allocation, Mount Lebanon captured the largest portion of Kafalat loans with 38.81% of total granted loans, tracked by the Bekaa, South Lebanon and North Lebanon with 22.76%, 12.13% and 10.82% respectively. Nabatiyeh and Beirut took the remaining shares of 7.84% for the former and 7.65% for the latter.

Breakdown of Kafalat Loans

	Up to Aug. 2011	Up to Aug. 2012	Up to Aug. 2013
Kafalat Guarantees	843	702	536
Total Value ($)	108,414,739	95,660,558	74,680,675
Average Value ($)	128,606	136,269	139,330

Source: Kafalat

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Approvals for Industrial Firms Rose to 210 in the First Half of the year

Swimming against the tide, approvals of licenses for industrial firms reached 210 in the first half of 2013 (H1 2013) as compared to 180 in the same period last year. The highest number of approvals, 56, was recorded during the month of June while the lowest number of approvals, 13, was registered during the month of February. The approvals relative to "Build and Operate" licenses accounted for 36.7% of the total, while those solely relative to building licenses followed with a stake of 23.3%. Meanwhile, the share of approvals related to the modification of previous licenses stood at 21.4%. The largest number of approvals (123) was granted in the region of Mount Lebanon while the regions of Bekaa and North Lebanon tracked suit with 31 and 19 approvals, respectively. In terms of industrial zones, Anfeh and Dekwaneh received 6 approvals each while 5 approvals were handed in Burj Hammoud, Zahleh, Choueifat and Mkalles.

Regional Allocation of License Approvals

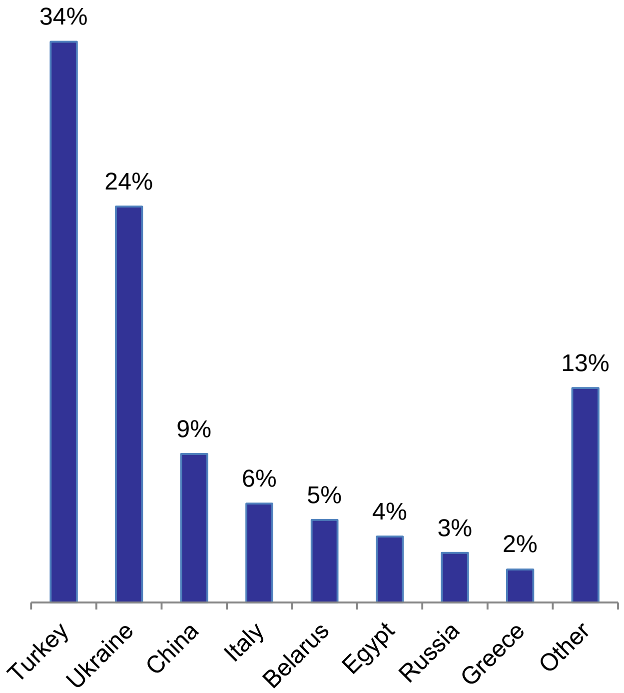
Region	Approvals of Industrial Licenses
Mount Lebanon	123
Bekaa	31
North Lebanon	19
Nabatiyeh	17
South Lebanon	15
Beirut	5
Grand Total	210

Source: Ministry of Industry

CORPORATE DEVELOPMENTS

Kfoury Metals: Managing Tough Operating Conditions

Lebanese Steel Imports per Country



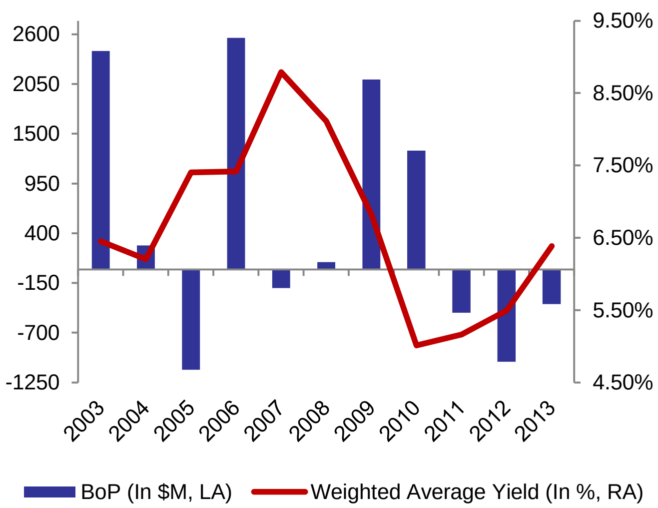
Source: Lebanese Customs

According to market aficionados, the Lebanese steel market can be qualified as a cartel, where high entry barriers and energy expenses restrain competition. The industry is dominated by three large players: Moussawi Trading Company, DEMCO Steel and Tannous Group. These traders, importing around 500,000 tons per year, have control over upward and downward price movements. As evidence, back in 2008, the price of 1 ton of steel retracted by 63% internationally but only by 48.8% locally. The chief market players sell their production at a somewhat unified price, as they import steel from countries such as Turkey at highly competitive prices. Moreover, energy-intensive Lebanese firms are struggling to be profitable since electricity, gas and fuel costs account for over 40% of total production costs. Contrastingly, energy costs in Turkey and in Egypt are respectively 12% and 12 times below those of Lebanon. The above-mentioned hurdles led to the shutdown of the Amchit steel factory in 2003, the only steel plant operating on Lebanese soil at the time. In spite of this backdrop, Kfoury Metals, specializing in reinforcing steel bars and located in Salaata-Batroun, entered the market in full swing in early 2012 with land and equipment costs surpassing $80M. The plant's maximum production capacity was set at 350,000 tons of steel, which can tend to 75% of local demand. While offering one ton of steel at $600, 20% higher than market price, Kfoury Metals is seeking to become a local steel producer via a two-fold survival strategy. First, ensuring energetic self-sufficiency through renewable energy sources, notably solar power. The second strategic move is purchasing raw steel at subdued prices from countries such as India. Overall, local steel traders are now more than ever keen on preserving their market share especially that once the Syrian crisis is over, the country's reconstruction will uplift demand for the metal.

FOCUS IN BRIEF

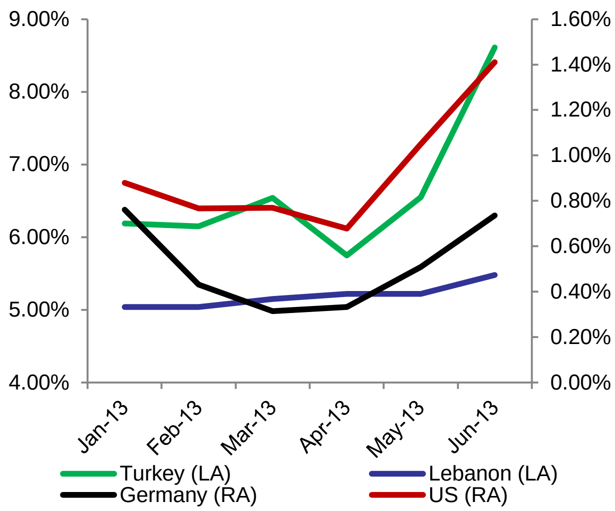
Overview of Eurobonds' Performance in the First Half of 2013

Relationship between the BoP and the Weighted Average Yield (End of Period)



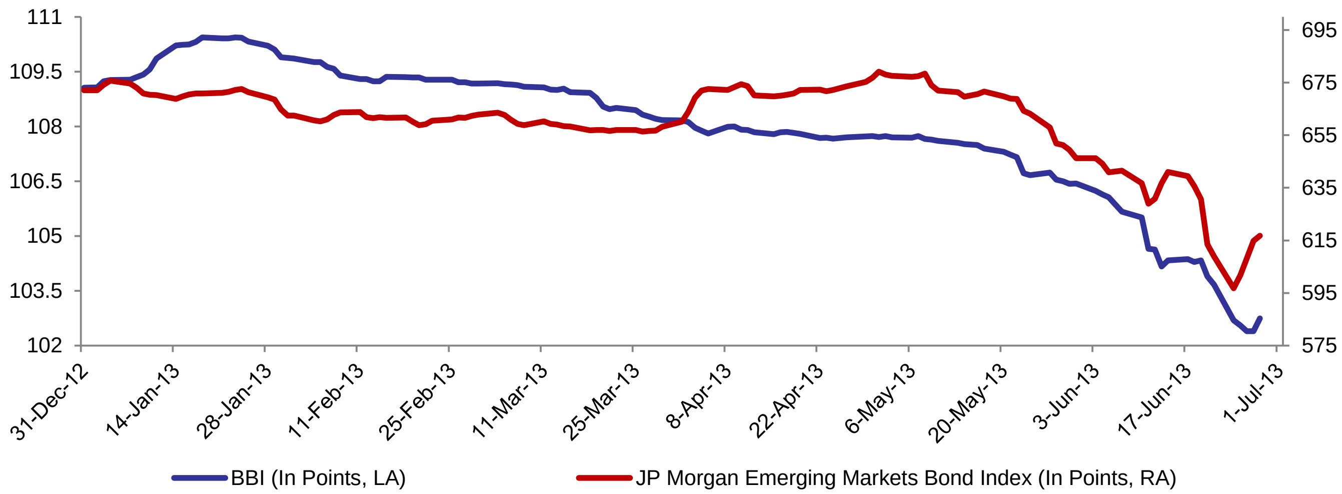
Source: BDL, Blominvest Research Department

5Y Yields Year-to-Date Performance (End of Period)



Source: Bloomberg, Blominvest Research Department

BBI and JP Morgan Emerging Markets Bond Index Year-to-Date Performance (End of Period)



Source: Bloomberg, Blominvest Research Department

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The Lebanese Eurobonds market reversed the positive trend of 2012 following an international bearish sentiment towards bonds led by the United States (US). US Optimistic economic data was the main catalyst of global safe assets markets' activity, especially after the Federal Reserve's (Fed) decision to taper its $85M monthly bond buying as soon as this year. Accordingly, international investors turned towards equities on the expense of treasuries, pushing yields up. Bonds markets were considerably impacted by the US economic performance that keeps on displaying positive signs, accelerating the Fed's decision to taper its debt purchases before the end of year.

After being investors' most favored safe assets in 2012, Emerging Markets (EM) bonds also suffered in the first half of 2013 of massive sell-offs and were hit by severe currency losses. Over the past years, EM bonds succeeded to improve their credit quality to investment grade bonds. In 2013, the repercussions of the Fed's tapering resolution were amplified by economic and political disturbances in several emerging countries. Turkey witnessed anti-government protests, demonstrations were led in Brazil over an increase in bus fares, and Indonesia posted deficit of its current account. Thailand saw economic recession with rising household debt, while the Indian Rupee plunged to its lowest levels due to budget and current account deficits. As a result, a higher perception of risk by investors in the EM widened spreads between their bonds and US Treasuries sending EM bonds near junk rating grade.

Back to Lebanon, the Eurobonds market showed negative performance as fears of regional upheavals shook investors' confidence in the country's debt instruments starting March. The BLOM Bond Index (BBI) went down after 2-months of progress when it touched a high of 110.44 points in January 21, 2013. However, the BBI dropped 5.8% from year start to close at 102.74 points by the end of June as local and international investors showed little interest in holding government debt amidst a deteriorating political environment and an international downward trend. Nonetheless, the BBI regained some of its previous losses as prices became highly appealing to local investors due to their low levels. On a comparative scale, the Lebanese Eurobonds market followed the emerging markets' y-t-d path as the JP Morgan's emerging markets bond index posted a 5.60% loss in the first six months of the year to settle at 614.82 points.

Investors stayed away of long term Eurobonds in favor of shorter maturities as fears of future developments controlled their behavior, driving longer term yields towards higher levels. While tracking the 5Y and 10Y Lebanese Eurobonds' yields over the past six months, the former increased by 5 basis points (bps) to 5.07%, while the latter surged by 125 bps to 7.23%. A wait and see approach was taken as several political issues were awaited to be solved on the local scene. In this context, the respective 5Y and 10Y spreads against the US Treasury benchmark widened from 430 bps and 370 bps by the end of December 2012 to 457 bps and 471 bps by the end of June this year.

Moreover, the Lebanese debt setback also matched the country's Credit Default Swaps (CDS) ascending trend, further highlighting investors' negative outlooks concerning Lebanon's economic developments. Worth mentioning that the annual cost to protect against the government's default holding is an essential gauge for investors to hedge risks and express an opinion about the creditworthiness of a government as well as assuring self-protection if a country defaults or starts a debt restructuring. The 5Y CDS was quoted at an average of 500 bps in June compared to December's range of 455 bps. Given Lebanon's country risk, its CDS remained higher than other regional economies such Saudi Arabia and Dubai at 81 bps and 252 bps, respectively, and worse than emerging markets such as Brazil and Turkey at respective levels of 183 bps and 187 bps. However, the 5Y Lebanese CDS remained respectively lower than the average 5Y Ukrainian and Cypriot CDS of 817 bps and 1221 bps, and in line with Iraq and Portugal's respective CDS of 471 bps and 401 bps.

Lebanon's sovereign debt rating outlook was negatively affected by the local and regional escalations of events. Moody's downgraded its outlook on Lebanon's government bond rating from B1 stable to B1 negative. Lebanon's debt burden is ranked third after Japan and Greece with a debt-to-GDP ratio of 142.30% by the end of June. The country undergoes a considerable public debt that reached $60.01B in June 2013, rising by 8.5% y-o-y and 4.0% y-t-d. According to the Association of Lebanese Banks, foreign currency debt accounted for 43.6% of total public debt, of which 90.2% are Eurobonds. As for the average maturity of public debt denominated in foreign currencies, it stands around 6.08 years with a weighted interest of 6.49%. Lebanese government has accumulated a massive debt with no clear approach to deal with it. High levels of spending coupled with timid public revenues deepened the fiscal deficit. In this context, the ministry of Finance managed to successfully issue $1.1B Eurobonds in April, of which $600M are reopening of 2023 bearing a 6% coupon, and $500M are reopening of 2027 bearing a 6.7% coupon.

Several drivers will keep on manipulating the Eurobonds market in Lebanon. Namely, the Federal Reserve's stance on quantitative easing, the Syrian conflict and developments in emerging markets. In this context, the recent state of events showed that the relative stability in the country and the Fed's decision not to start tapering its bond purchases has improved the performance of the Eurobonds market and has significantly eased the CDS market. In fact, Lebanon's 5Y CDS were last quoted at 361-389 bps compared to an average of 500 bps in June.

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