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## The LEBANON WEEKLY MONITOR

## Economy

**p.2 LEBANESE BANKS CONSOLIDATION STRATEGIES TRANSLATING INTO A US\$ 3.1 BILLION LENDING CONTRACTION YEAR-TO-DATE**

According to banking sector statistics just released by BDL, banks assets reported US\$ 253.6 billion at end-May 2019, rising by US\$ 4.1 billion year-to-date, the growth being mainly driven by the financial engineering operations of the BDL.

Also in this issue

**p.3** Gross public debt at US\$ 85.4 billion at end-May 2019

**p.4** Value of cleared checks down by a yearly 16.3% in first six months of 2019

## Surveys

**p.5 BEIRUT RANKS FOURTH IN REGION AND 108TH IN WORLD WITH A COST OF LIVING INDEX SCORE OF 149, SAYS EXPATISTAN**

According to Expatistan, an international cost of living calculator, Beirut ranked fourth in the Arab World and 108th in the world with a cost of living index score of 149, with only Doha, Dubai, and Abu Dhabi preceding it.

Also in this issue

**p.6** Lebanon has moderately high score of 68.5 out of 100 for Economic Openness, says Fitch Solutions

## Corporate News

**p.7 NEWLY REGISTERED CARS AT 13,174 IN FIRST SIX MONTHS OF 2019, DOWN BY A YEARLY 23.4%**

According to data compiled by the Association of Car Importers in Lebanon, the number of newly registered passenger cars stood at 13,174 in the first six months of 2019, falling by 23.4% from a total of 17,208 in the same period of 2018.

Also in this issue

**p.8** Crédit Libanais' net profits down by 3.2% to US\$ 18.7 million in first quarter of 2019

## Markets In Brief

**p.9 US SANCTIONS COMPOUND WITH US TREASURIES MOVE WEIGH ON LEBANON'S BOND MARKET**

Lebanon's Eurobond market came under downward price pressures this week, mainly weighed down by the US Treasury's decision to place two members of Lebanon's Parliament on its sanctions blacklist, while also tracking US Treasuries declines following higher-than-forecast US inflation in June 2019. This week's bond price falls have swept away part of price gains registered over the past three weeks, and led to a 73 bps increase in the weighted average bond yield to reach 10.42%. Concurrently, Lebanon's five-year CDS spreads expanded by 55 bps to reach 925 bps, in a sign of reduced market perception of sovereign risks at large. On the equity market, the BSE price index fell by 1.2%, dragged by price drops in Solidere and some banking shares, while the total turnover remained well below the weekly average value registered since the beginning of 2019. Finally, the FX market saw reduced conversions in favor of FC despite current domestic tensions tied to US sanctions.

## LEBANON MARKETS: WEEK OF JULY 08 - JULY 14, 2019

Money Market



LP Tbs Market



LP Exchange Market



BSE Equity Market



Eurobond Market



CDS Market



## ECONOMY

### LEBANESE BANKS CONSOLIDATION STRATEGIES TRANSLATING INTO A US\$ 3.1 BILLION LENDING CONTRACTION YEAR-TO-DATE

According to banking sector statistics just released by BDL, banks assets reported US\$ 253.6 billion at end-May 2019, rising by US\$ 4.1 billion year-to-date, the growth being mainly driven by the financial engineering operations of the BDL. As such, bank assets represented 440% of GDP at end-May, mainly tied to customer deposits that amounted to US\$ 170.9 billion, accounting for 67% of total assets and the equivalent of 300% of Lebanon's GDP. Comparatively, deposits to GDP stand at 82% in MENA, 40% in emerging markets and 52% at the global level.

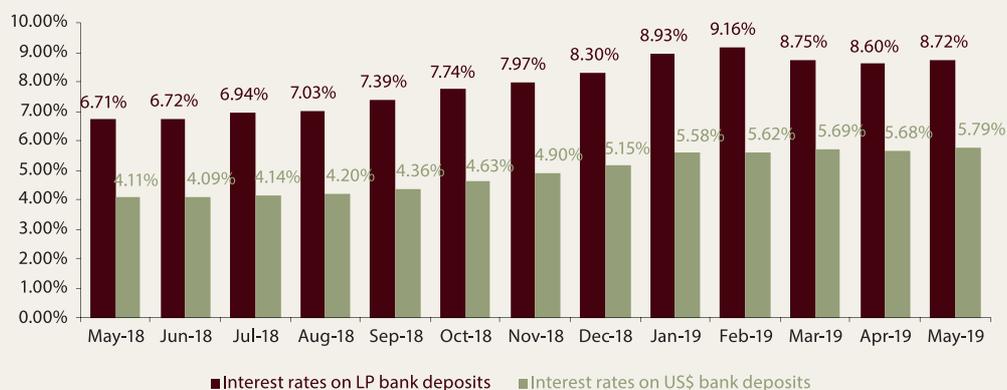
The large bank dimension relative to the size of the domestic economy translates into noticeable bank loans to GDP ratio although at a less accentuated pace amid the newly implemented consolidation strategies at Lebanese banks. Loans to GDP amount to 97% in Lebanon today, against 58% for the regional average, 31% for the emerging markets average and 44% for the global average.

It is worth mentioning that with Lebanese banks following de-risking strategies within the prevailing environment, the banking sector loan portfolio is contracting further. Loans to the private sector reached US\$ 56.3 billion at end-May, declining by 3.1 billion year-to-date, tied to both LP and FX loan contraction (by US\$ 1.2 billion and US\$ 1.9 billion respectively). As such, loan dollarization has reported 69.7% at end-May 2019, slightly lower than deposit dollarization of 71.2% as at the same date.

While Lebanese banks' liquidity in foreign banks reported a relative decline year-to-date, moving from US\$ 12.0 billion at end-December 2018 to US\$ 9.3 billion at end-May 2019, total FX primary liquidity remains at a sound level of 56.5% of FX deposits, mainly driven by banks FX deposits at BdL, which in turn has substantial foreign assets abroad. BDL's foreign assets amounted to US\$ 36.6 billion at end-May, the equivalent of 75% of the Lebanese Pound Money Supply and 22 months of imports.

In terms of interest rates, no major movements in deposit rates were reported this year, following the significant hikes of last year. The average LP deposit rate across the banking sector reported 8.72% in

#### EVOLUTION OF KEY INTEREST RATES



Source: BDL

May 2019, against 8.30% in December 2018. Likewise, the average US\$ deposit rate across the banking sector reported 5.79% in May 2019, against 5.15% in December 2018. The deposit interest rate increases of this year were mainly reported in January prior to Cabinet formation, while a quasi-stability in rates was reported since then.

Finally, banks capitalization was slightly reinforced this year, with shareholders' equity moving from US\$ 20.1 billion at end-December to US\$ 21.1 billion at end-May. As a percentage of total assets, shareholders' equity rose from 8.1% to 8.3% respectively. As such, Lebanese banks capital adequacy ratio (Basle III) remains satisfactory at 16.56%, suggesting good coverage of credit risks, market risks and operational risks by banks' own funds.

### GROSS PUBLIC DEBT AT US\$ 85.4 BILLION AT END-MAY 2019

The data published by the Ministry of Finance in Lebanon showed that the country's gross debt reached US\$ 85.4 billion at end-May 2019, up by 0.3% from the level seen at end-2018.

Domestic debt was higher by 3.1% from end-2018 to reach a total of US\$ 53.2 billion at end-May 2019.

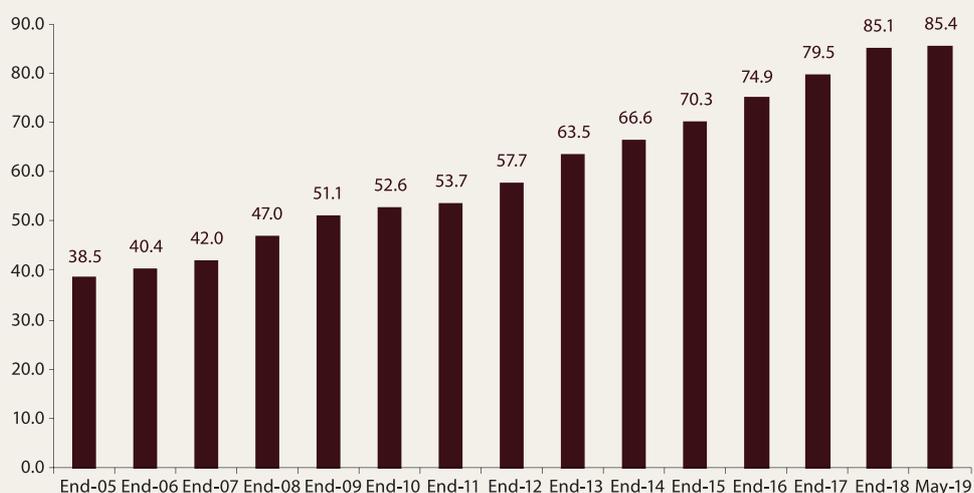
Lebanon's external debt fell by 4.0% from end-2018 to stand at around US\$ 32.1 billion at end-May 2019.

In this context, the public sector deposits at the Central Bank fell by 24.9% from end-2018 to stand at US\$ 3.8 billion at end-May 2019. The public sector deposits at commercial banks edged up by 12.3% from end-2018 to reach US\$ 4.9 billion at end-May 2019.

As such, net public debt, which excludes the public sector deposits at the Central Bank and commercial banks from overall debt figures, increased by 1.3% from end-2018 to reach a total of US\$ 76.7 billion at end-May 2019.

Net domestic debt amounted to US\$ 44.5 billion at end-May 2019, up by 5.4% from end-2018.

#### GROSS PUBLIC DEBT (US\$ BILLION)



Sources: Association of Banks in Lebanon, Bank Audi's Group Research Department

### VALUE OF CLEARED CHECKS DOWN BY A YEARLY 16.3% IN FIRST SIX MONTHS OF 2019

The total value of cleared checks, an indicator of consumption and investment spending in the Lebanese economy, declined by 16.3% year-on-year in the first half of 2019 pointing to a relative deceleration in spending during the aforementioned period.

The value of cleared checks reached US\$ 27,491 million in the first six months of 2019, against US\$ 32,844 million in the same period of 2018.

A breakdown by currency shows that the banks' clearings in Lebanese pounds amounted to LP 15,547 billion (-3.0%) in the first six months of 2019 while those in FC amounted to US\$ 17,178 million (-22.7%).

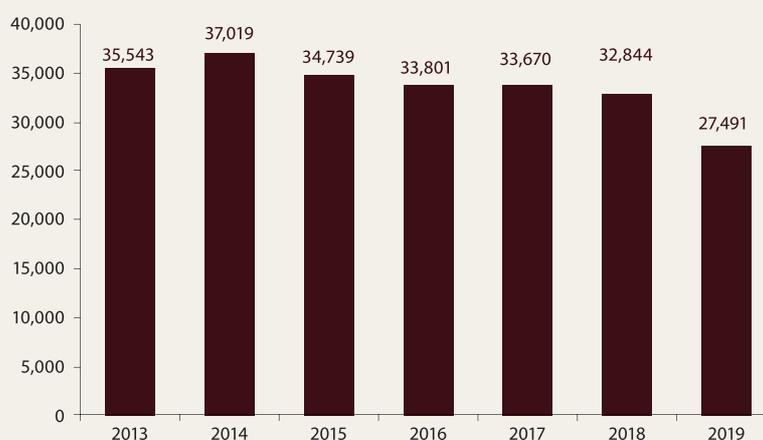
Furthermore, the number of cleared checks registered 5,061,968 in the first six months of 2019, down by 13.8% from 5,875,410 in the same period of 2018.

The average value per check retreated by 2.8% year-on-year to stand at US\$ 5,431 in the previously mentioned period of 2019.

The value of returned checks reached US\$ 699 million in the first half of 2019, against US\$ 748 million in the same period of 2018.

The contraction in clearing activity mirrors the rising economic sluggishness across Lebanon's economic sectors, especially felt at the level of private investment.

#### CLEARING ACTIVITY (FIRST SIX MONTHS OF THE YEAR, US\$ MILLION)



Sources: Association of Banks in Lebanon, Bank Audi's Group Research Department

## SURVEYS

### BEIRUT RANKS FOURTH IN REGION AND 108TH IN WORLD WITH A COST OF LIVING INDEX SCORE OF 149, SAYS EXPATISTAN

According to Expatistan, an international cost of living calculator, Beirut ranked fourth in the Arab World and 108th in the world with a cost of living index score of 149.

Expatistan released its latest Cost of Living Index results dated July 7, 2019 in which it compared 319 cities across the globe based on their index scores when benchmarked to that of Prague (Prague being therefore the "central reference city" with a score of 100).

The assessment of a city's cost of living takes into account the prices of a basket of goods and services categorized under Food, Housing, Clothes, Transportation, Personal Care, and Entertainment.

Within this context, Beirut was considered the most expensive city globally in the cost of one month of utilities (heating, electricity, gas...) for one person in a 45 m<sup>2</sup> (480 Sqft) studio. Beirut also came in as the most expensive city in the Middle East in terms of the cost of one minute of prepaid mobile service (no discounts or plans).

Regionally, Beirut ranked 4th out of 11 cities in the Middle East and North Africa. Dubai and Abu Dhabi preceded Beirut in the rankings, with respective scores 184 and 170. On the other hand, Ramallah and Kuwait came after Beirut, with respective scores of 142 and 137.

It is worth adding that Doha turned out to be the Middle East's most expensive city when compared to Prague with an index score of 191 (thus ranking 26th in the world), followed by Dubai and Abu Dhabi.

At the Global level, Grand Cayman in the Cayman Islands emerged as the most expensive city in the world with a cost of living index score of 263, followed by New York, Geneva, Zurich, and San Francisco. The world's least expensive cities, on the other hand, were Rosario in Argentina, Antalya in Turkey, and Mendoza in Argentina.

#### EXPATISTAN COST OF LIVING INDEX MIDDLE EAST

Rank	City	Price Index
1	Doha	191
2	Dubai	184
3	Abu Dhabi	170
<b>4</b>	<b>Beirut</b>	<b>146</b>
5	Ramallah	142
6	Kuwait	137
7	Jeddah	130
8	Amman	129
9	Manama	126
10	Riyadh	110
11	Dammam	93

Sources: Expatistan, Bank Audi's Group Research Department

## LEBANON HAS MODERATELY HIGH SCORE OF 68.5 OUT OF 100 FOR ECONOMIC OPENNESS, SAYS FITCH SOLUTIONS

According to Fitch Solutions, Lebanon has a moderately high score of 68.5 out of 100 for Economic Openness, ranking in a competitive third position of the 18 states in the MENA region, only behind the UAE and Bahrain.

Lebanon has a long tradition of domestic free trade and investment policies, with a combination of free market pricing for most goods and services, an unrestricted exchange and trade system, and extensive links with the developed world in nearly all economic activities boosting its competitiveness against regional peers, as per the report.

The government continues to favour a strong role for the private sector in a liberal policy environment. That said, the crisis in neighboring Syria has negatively affected Lebanon's operating environment, with the influx of a large number of refugees straining public finances for the government, which is one of the most indebted in the world.

The conflict has also obstructed Lebanon's access to major markets and a transport corridor through the Levant. Meanwhile, the government has been slow in implementing some of the much needed reforms to put the economy on long term sustainability, with much of public spending being directed towards non-productive activities such as debt servicing, electricity subsidies and employees' salaries, which will continue to undermine Lebanon's economic competitiveness over the short-medium term.

While Lebanon has a strong tradition of commerce and enterprise and adopts an open and welcoming approach to foreign investment, it has one of the most vulnerable economies in the region due to a number of structural weaknesses. In particular, a large public debt load means that much of public spending is consumed by unproductive activities such as paying wages and servicing debt rather than more productive capital expenditure, which structurally weakens the economy.

Meanwhile, Lebanon is highly dependent on such sectors as tourism and services that are very sensitive to global, regional and emerging markets risks, with its economy remaining well below potential inhibited by decidedly volatile geopolitics and regional security conditions.

According to Fitch Solutions, the outlook for Lebanon's trade environment over the medium term is somewhat subdued. The country's lack of productive, export-led industries results in a wide current account deficit, which will not narrow given the pressure on export growth caused by disruption in major trade partners, travel sanctions imposed by Gulf states, and the disturbance caused by the persistently fragile political system.

Businesses face risks to supply chain disruption due to the ongoing conflict in Syria, which has closed off overland trade routes, while additional concerns emanate from Lebanon's current exclusion from the WTO. Nevertheless, the country's import-reliant economy generally offers an open environment for international trade, with few major regulatory, tariff or customs barriers impeding trade flows.

**CORPORATE NEWS**

**NEWLY REGISTERED CARS AT 13,174 IN FIRST SIX MONTHS OF 2019, DOWN BY A YEARLY 23.4%**

According to data compiled by the Association of Car Importers in Lebanon, the number of newly registered passenger cars stood at 13,174 in the first six months of 2019, falling by 23.4% from a total of 17,208 in the same period of 2018.

According to the same source, this is due to the currently prevailing macro situation in Lebanon, to the 25% down payment imposed on car loans and to the increase in interest rates on car loans, among others.

In a look at the regions, Japanese cars took over the highest share of newly registered cars in the first half of 2019 with a total of 5,116, down by 25.4% from the same period of 2018. Korean cars took over the second place with a total of 3,441 cars down from 5,148 cars in the aforementioned period. European cars took over the third place with a total of 2,985 cars in the first half of 2019, down by a yearly 11.7%.

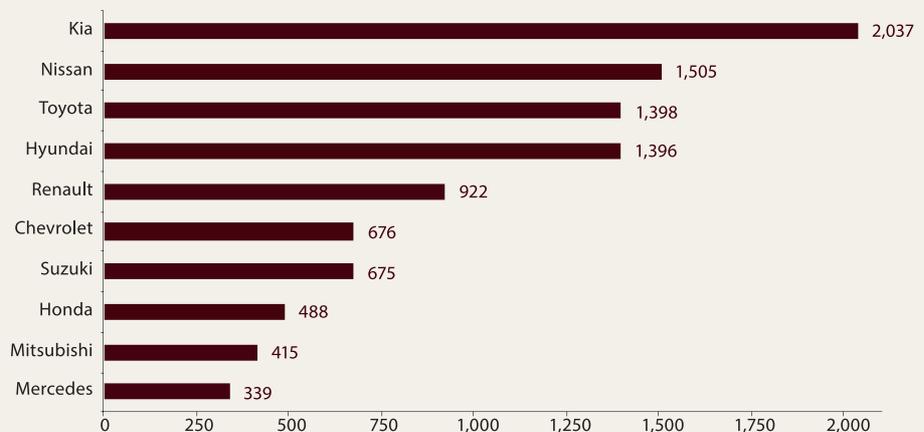
Korea's Kia ranked first in terms of new car registration during the first six months of 2019, with a total of 2,037 cars against a total of 2,813 cars during the same period of the previous year.

It was followed by Japan's Nissan with a total of 1,505 newly registered cars in the first six months of 2019, against 1,864 cars in the first six months of 2018.

These were followed by Japan's Toyota with a total of 1,398 newly registered cars in the first six months of 2019, compared to a total of 2,287 cars registered in the year-earlier similar period.

Korea's Hyundai came in the fourth position with a total of 1,396 newly registered cars in the first six months of this year, compared to 2,322 cars registered in the first six months of 2018.

**TOP BRANDS OF NEWLY REGISTERED CARS IN FIRST HALF OF 2019**



Sources: Association of Car Importers in Lebanon, Bank Audi's Group Research Department

## CRÉDIT LIBANAIS' NET PROFITS DOWN BY 3.2% TO US\$ 18.7 MILLION IN FIRST QUARTER OF 2019

Crédit Libanais' consolidated net profits amounted to US\$ 18.7 million in the first quarter of 2019, down by a yearly 3.2% from US\$ 19.3 million in the same period of 2018, as per Bankdata Financial Services.

Net interest income fell by an annual 10.2% to US\$ 39.6 million in the first three months of 2019. Net fee income stood at US\$ 9.8 million in the first quarter of 2019, down from US\$ 10.7 million in the first quarter of 2018.

Total operating income amounted to US\$ 54.8 million in the first quarter of 2019, falling by 9.6% year-on-year.

Total operating expenses retreated by 4.7% annually, from US\$ 34.3 million in the first quarter of 2018 to US\$ 32.7 million in the same period of 2019, of which staff expenses amounted to US\$ 20.6 million, nearly unchanged from its level in the same period of 2018 and administrative and other operating expenses totaled US\$ 10.2 million, down by a yearly 12.4%.

The bank's cost-to-income ratio rose from 56.3% in the first quarter of 2018 to 59.5% in the corresponding period of 2019.

Total assets of Crédit Libanais reached US\$ 12.7 billion at end-March 2019, up by 2.1% from end-2018. Loans to customers edged down by 1.5% from end-2018 to reach US\$ 3.3 billion at end-March 2019. Customers' deposits amounted to US\$ 9.4 billion at end-March 2019, up by 0.6% from end-2018.

### CRÉDIT LIBANAIS' SELECTED INCOME STATEMENT AGGREGATES (US\$ MILLION)



Sources: Bankdata Financial Services, Bank Audi's Group Research Department

## CAPITAL MARKETS

### MONEY MARKET: SIGNIFICANT WEEKLY EXPANSION IN TOTAL RESIDENT DEPOSITS

The overnight rate initiated the week at 7% and slid to 5.5% on Friday amid reduced conversions in favor of foreign currencies on the foreign exchange market.

In parallel, the latest monetary aggregates released by the Central Bank of Lebanon showed that total resident banking expanded significantly by LP 874 billion during the week ending 27th of June 2019, their largest weekly growth since end-February 2019. This is mainly attributed to a LP 418 billion rise in total LP resident deposits amid a LP 496 billion increase in LP demand deposits and a LP 78 billion decrease in LP saving deposits, in addition to a LP 456 billion growth in foreign currency resident deposits (the equivalent of US\$ 302 million). Within this context, the money supply in its largest sense (M4) registered a noticeable weekly expansion of LP 1,516 billion amid a LP 469 billion increase in the currency in circulation and a LP 172 billion rise in the non-banking sector Treasury bills portfolio.

#### INTEREST RATES

	12/07/19	05/07/19	28/12/18	
Overnight rate (official)	3.90%	3.90%	3.90%	↔
7 days rate	4.00%	4.00%	4.00%	↔
1 month rate	4.75%	4.75%	4.75%	↔
45-day CDs	4.90%	4.90%	4.90%	↔
60-day CDs	5.08%	5.08%	5.08%	↔

Source: Bloomberg

### TREASURY BILLS MARKET: NOMINAL WEEKLY SURPLUS OF LP 90 BILLION

The latest Treasury bills auction results for value date 11th of July 2019 showed that the Central Bank of Lebanon has allowed banks to subscribe in full to the one-year category (offering a yield of 6.50%) and the five-year category (offering a coupon of 8.0%).

In parallel, the Treasury bills auction results for value date 4th of July 2019 showed that total subscriptions reached LP 296 billion and were distributed as follows: LP 9 billion in the six-month category (offering a yield of 5.85%), LP 92 billion in the two-year category (offering a coupon of 7.0%) and LP 195 billion in the ten-year category (offering a coupon of 10.0%). These compare to maturities of LP 206 billion, resulting into a nominal weekly surplus of LP 90 billion.

The latest "Key Indicators" report released by the Association of Banks in Lebanon showed that the weighted yield on LP Treasury bills reached 7.30% at end-May 2019 as compared to 7.08% at end-December 2018. The 22 bps expansion over the first quarter of the year is mainly explained by an interest rate hike by the Ministry of Finance in January 2019 on the three-month, six-month, one-year, two-year, three-year, five-year and seven-year LP Tbs categories at a range of 0.86% to 1.92%.

## TREASURY BILLS

	12/07/19	05/07/19	28/12/18	
3-month	5.30%	5.30%	4.44%	↔
6-month	5.85%	5.85%	4.99%	↔
1-year	6.50%	6.50%	5.35%	↔
2-year	7.00%	7.00%	5.84%	↔
3-year	7.50%	7.50%	6.50%	↔
5-year	8.00%	8.00%	6.74%	↔
10-year	-	10.00%	10.00%	
<b>Nom. Subs. (LP billion)</b>		<b>296</b>	<b>98</b>	
Short-term (3&6 mths)		9	4	
Medium-term (1&2 yrs)		92	11	
Long-term (3 yrs)		-	-	
Long-term (5 yrs)		-	83	
Long-term (10 yrs)		195	-	
<b>Maturities</b>		<b>206</b>	<b>124</b>	
<b>Nom. Surplus/Deficit</b>		<b>90</b>	<b>-26</b>	

Sources: Central Bank of Lebanon, Bloomberg

## FOREIGN EXCHANGE MARKET: REDUCED CONVERSIONS IN FAVOR OF FC

Despite elevated domestic tensions following the US imposition of sanctions on two members in the Lebanese Parliament, the foreign exchange market witnessed this week reduced conversions in favor of foreign currencies when compared to the previous week. This occurred at a time when some commercial banks are launching new saving products aiming to attract fresh money from outside Lebanon, a move that would leave a positive impact on banking sector deposits and BDL's foreign currency reserves.

## EXCHANGE RATES

	12/07/19	05/07/19	28/12/18	
LP/US\$	1,507.50	1,507.50	1,507.50	↔
LP/£	1,890.56	1,892.67	1,905.78	↑
LP/¥	13.91	13.95	13.66	↑
LP/SF	1,528.13	1,526.58	1,529.68	↓
LP/Can\$	1,157.03	1,153.58	1,107.48	↓
LP/Euro	1,698.35	1,697.75	1,724.73	↓

Source: Bank Audi's Group Research Department

## STOCK MARKET: SLUGGISH ACTIVITY CONTINUES TO PREVAIL AMID EXTENDED WEEKLY PRICE FALLS

Activity remained quite sluggish on the Beirut Stock Exchange this week. The total turnover was restricted to US\$ 1.2 million versus US\$ 1.6 million in the previous week and an average weekly trading value of US\$ 4.0 million since the beginning of the year 2019. Solidere shares accounted for 51.6% of activity, followed by the banking shares with 48.1% and the industrial shares with 0.3%.

As far as prices are concerned, the BSE price index continued to trace a downward trajectory, falling by 1.2% week-on-week to close at 73.86, dragged by price drops in Solidere shares and some banking shares. Solidere "A" shares led the decline, shedding 4.8% to US\$ 5.94, followed by Bank Byblos Preferred shares 2009 with -4.7% to reach US\$ 68.60, Bank Byblos "listed" share with -3.2% to US\$ 1.20, Solidere "B"

share with -2.7% to US\$ 6.10, BLOM's GDRs with -1.6% to US\$ 7.58, Bank Audi's GDRs with -1.0% to US\$ 3.86 and BLOM's "listed" shares with -0.1% to US\$ 7.99.

The weekly performance of the BSE compares to price increases in broader regional stock exchanges (+1.4% as per the S&P Pan-Arab Composite Index), and to shy decreases in prices across emerging markets (-0.8% as per the S&P Emerging Frontier Super Composite Index).

#### AUDI INDICES FOR BSE

22/1/96=100	12/07/19	05/07/19	28/12/18	
Market Cap. Index	338.43	342.52	384.30	↓
Trading Vol. Index	10.38	13.82	227.09	↓
Price Index	73.86	74.75	83.87	↓
Change %	-1.20%	-1.48%	-0.70%	↓
	12/07/19	05/07/19	28/12/18	
Market Cap. \$m	8,029	8,126	9,117	↓
No. of shares traded (Exc. BT)	240,839	166,153	4,241,140	↑
Value Traded \$000 (Exc. BT)	1,205	1,606	21,393	↓
o.w. : Solidere	622	789	1,208	↓
Banks	580	783	20,107	↓
Others	3	34	78	↓

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

#### BOND MARKET: LEBANESE BONDS UNDER DOWNWARD PRICE PRESSURES

Lebanese Eurobond came under downward price pressures this week amid increased domestic tensions after the US Treasury placed for the first time two members of Lebanon's Parliament on its sanctions blacklist, while also tracking US Treasuries declines after higher-than-forecast US inflation and strong US job report in June 2019.

Within this context, and given emerging market weakness (as reflected by a 1.4% expansion in JP Morgan EMBIG Z-spread), international institutional investors were net sellers. Lebanese sovereigns posted weekly price contractions across the yield curve ranging between 0.25 pt and 3.38 pts, thus erasing part of price gains registered over the past three weeks following the US Fed rate cut forecast in 2020, the Qatari statement and the US-China trade truce.

That being said, the weighted average bond yield moved from 9.69% at the end of last week to a double-digit level of 10.42% at the end of this week. Also, the weighted average bid Z-spread widened from 822 bps last week to 886 bps this week, up by 64 bps. As to the cost of insuring debt, Lebanon's five-year CDS spreads expanded from 860-880 bps last week to 900-950 bps this week, in a sign of reduced market perception of sovereign risks at large.

#### EUROBONDS INDICATORS

	12/07/19	05/07/19	28/12/18	
Total tradable size \$m	31,064	31,064	32,214	↔
o.w.: Sovereign bonds	29,814	29,814	30,964	↔
Average Yield	10.42%	9.69%	9.95%	↑
Z-Spread (bid in bps)	886	822	764	↑
Average Life	7.56	7.60	7.83	↓
Yield on US 5-year note	1.88%	1.76%	2.61%	↑

Source: Bank Audi's Group Research Department

## INTERNATIONAL MARKET INDICATORS

	12-Jul-19	05-Jul-19	31-Dec-18	Weekly change	Year-to-date change
<b>EXCHANGE RATES</b>					
YEN/\$	107.90	108.47	109.61	-0.5%	-1.6%
\$/£	1.257	1.252	1.275	0.4%	-1.4%
\$/Euro	1.127	1.123	1.147	0.4%	-1.7%
<b>STOCK INDICES</b>					
Dow Jones Industrial Average	27,332.03	26,922.12	23,327.46	1.5%	17.2%
S&P 500	3,013.77	2,990.41	2,506.85	0.8%	20.2%
NASDAQ	8,244.15	8,161.79	6,635.28	1.0%	24.2%
CAC 40	5,572.86	5,593.72	4,730.69	-0.4%	17.8%
Xetra Dax	12,323.32	12,568.53	10,558.96	-2.0%	16.7%
FT-SE 100	7,505.97	7,553.14	6,728.13	-0.6%	11.6%
NIKKEI 225	21,685.90	21,746.38	20,014.77	-0.3%	8.3%
<b>COMMODITIES (in US\$)</b>					
GOLD OUNCE	1,415.75	1,399.45	1,282.49	1.2%	10.4%
SILVER OUNCE	15.22	15.00	15.50	1.5%	-1.8%
BRENT CRUDE (per barrel)	66.72	64.23	53.80	3.9%	24.0%
<b>LEADING INTEREST RATES (%)</b>					
1-month Libor	2.33	2.37	2.50	-0.04	-0.17
US Prime Rate	5.50	5.50	5.50	0.00	0.00
US Discount Rate	3.00	3.00	3.00	0.00	0.00
US 10-year Bond	2.12	2.03	2.68	0.09	-0.56

Sources: Bloomberg, Bank Audi's Group Research Department

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