BLOMINVEST BANK SAL

September 16th, 2013

MENA Review and Quarterly Outlook

BLOMINVEST Views on Regional Economic and Financial Developments for Q2 2013

View of the Quarter

The second quarter of 2013 was characterized by mass events that threatened to flip the regional status-quo of the Middle East, thus halting most economic plans in oil-importers countries and pausing oil-exporters to reflect on their associated stances. **Syria**'s escalating crisis became a regional and international concern when the United States menaced to strike defined targets in Syria in response to its use of chemical weapons. Few weeks earlier, large demonstrations in **Egypt** had ousted the first freely elected president, while concerns multiplied over the peacefulness of the coming transitional period. The situation in Egypt calmed thanks to financial support from some Gulf countries and a general perspective of a friendlier business environment to come. **Lebanon**'s politics remained deactivated with economic files piling up until the Syrian crisis cleared. **Jordan** was set on the track for reforms but worries were voiced over the government's performance and attitude towards war in Syria. In the Gulf, economic performance remained sound and more focus was given to internal issues. **Qatar**'s spending on infrastructure rose significantly in anticipation of the FIFA 2023 event. **Saudi Arabia**'s non-oil sector fared better than its oil sector while efforts amplified to lower unemployment. The **UAE's** quest for big plans and international competitiveness persisted, with recent projects including reliance on nuclear energy and the developments of space technologies.

HEADLINES

2 **Egypt Macro and Equity Market**
Awaiting Political Resolution, ECB Triggers an Expansionary Monetary Policy

3 **Jordan Macro and Equity Market**
Fears of Regional Spillovers Keep on Hindering Jordan's Economic Reforms

4 **Lebanon Macro and Equity Market**
Lebanon Cripples on Serious Spillovers from Syria's War

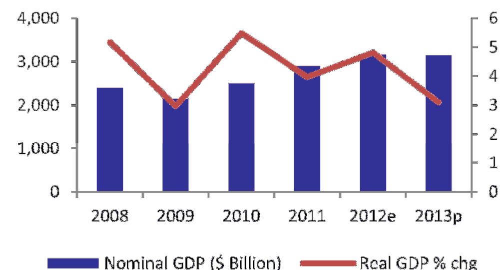
5 **Qatar Macro and Equity Market**
New Ruling, Same Vision

6 **Saudi Arabia Macro and Equity Market**
Robust Economy In spite of Hydrocarbon Slowdown

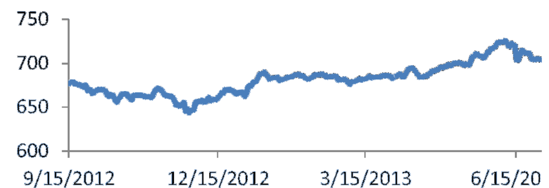
7 **Syria Macro and Equity Market**
Regime Faces Threats of International Intervention

8 **UAE Macro and Equity Market**
The Outlook Remains Prosperous Amidst Bolstered Economic Fundamentals

MENA GDP Indicators



S&P Pan Arab Composite Index

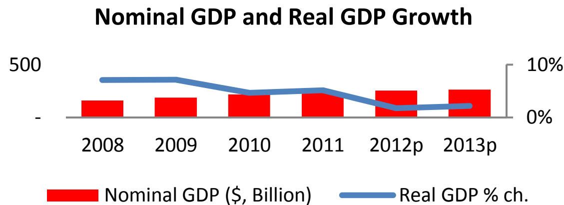


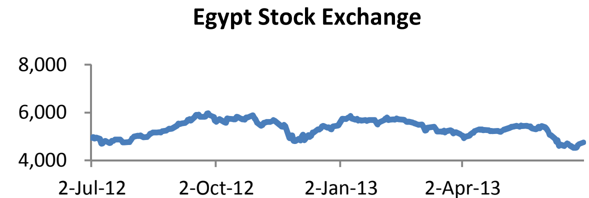
Marwan Mikhael *Head of Research*
Maya Mantach *Senior Economist*
Mirna Chami *Research Analyst*
Riwa Daou *Junior Economist*

Egypt Macro and Equity Market

Awaiting Political Resolution, ECB Triggers an Expansionary Monetary Policy

Key Macroeconomic and Equity Market Indicator





Egypt topped the news charts in July as the first freely elected president, Mr. Morsi, was ousted by large demonstrations in the country's main Tahrir square. The angry millions took turns on the streets, ones calling for the overthrow of Muslim brotherhood president, and others bunching him up. The Egyptian armed forces, led by Commander in Chief General Sisi, army took hold of the situation, assigning Mr. Adly Mansour as interim president and laying a transitional schedule for new elections. The army maintained order, to widely controversial extents, raising fears of radical reactions and further splits amongst the Egyptians, but the situation slowly settled in the streets and moved back to the political corridors.

The political agitation limited the economic efficiency of the technocratic government led by Hazem el Beblawi, and few data is available since the ousting of Mr. Morsi. Egypt has been struggling with its finance and weak currency since the mandate of Mr. Morsi relying mostly on foreign aid to sustain the economy. Most real GDP growth estimates have been revised down to around 2.25% for the year 2013/2014, with the IMF estimating it at 2% for 2013. The country's nominal GDP of $264.7 billion is mainly driven by private consumption which was considerably subdued under the recent disturbing events. Investments also declined as noted by many foreign companies reducing their presence in Egypt.

Inflation fell to 9.75% in August from 10.3% in July, but will likely remain elevated by a combination of high energy prices, a depreciating currency and a recent unexpected haircut in interest rates. The anticipated reduction of subsidies and the disruptions in supply chains are also likely to raise the price in the consumer's typical basket, maintaining inflation at a high rate.

On another scale, July's massive protests deepened the tourism crisis in Egypt. Just one million tourists visited the country during the first 8 months of 2013, an 80% reduction over the same period last year. Tourism was at its best in 2010 when 12.7 million tourists flew to Egypt generating revenues of around $12.5 billion. Currently, the government is looking to promote the relative safety in southern Egypt and in the red sea cities in order to persuade European countries not to warn their citizens to avoid Egypt. The ill tourism has also infected aviation with bookings at Egypt Air falling by more than 40%.

On the external level, the latest released data from the central bank showed improved positions in the current and financial accounts. Trade deficit narrowed as imports fell to $7.1 billion in Q1 2013 from $9.9 billion in Q4 2012 on the back of lower oil imports. Non-oil imports also fell due to the weaker currency. On the other hand, net FDI improved from $193 million in Q4 2012 to $1 billion in Q1 2013 owing to a considerable decline in outflows during the quarter, noting that the pre-crisis level was around $2billion. As for remittances from Egyptians living abroad, they stabilized at $4billion.

Regarding the country's finances, tight revenues kept the budget deficit wide, near 11.6% of GDP, and the resolution of the political situation remains mandatory in order to set 2014's budget. The new government will probably be more wary about current expenditures, such as the 20% increase of public sector salaries planned by the previous government, and more capital spending is expected.

On the monetary front, the central bank had opted in March to raise interest rates for the first time since late 2011, hoping to curb inflation. However in August, Egypt's monetary policy committee unexpectedly switched to an expansionary monetary policy, cutting interest rates by 50 basis points, so that the deposit rate is now 9.25% and the lending rate is 10.25%. This move will likely push inflation higher but would help lower the burden on investments and debts. The central bank also introduced longer repo agreements of 28 days as part of its policy starting in June.

The country was bailed out by some $4billion deposited in July, coming from the United Arab Emirates, Saudi Arabia and Kuwait, which pledged a total of $12 billion in aid to the military-backed interim government. Some of these funds will be used for electricity and fuel subsidies, and others would directly go to the Central bank's reserves. As for the $4.8 billion long delayed loan from the IMF, no near dispatching appears soon. Meanwhile, around $3.5 billion of Qatari loans are being converted to bonds maturities of 18 months and 3 years and bearing interest of 3.5% and 4.25%. This is to signal the changing alliances of Egypt as Qatar was a main supporter of the Muslim brotherhood and Mr. Morsi.

Owing to the $4billion deposited in July, and the confidence installed by the $12 billion pledged, the Central Bank's foreign reserves edged up to $18.92 billion at the end of August, although they remain far from their 2010 level of $36 billion.

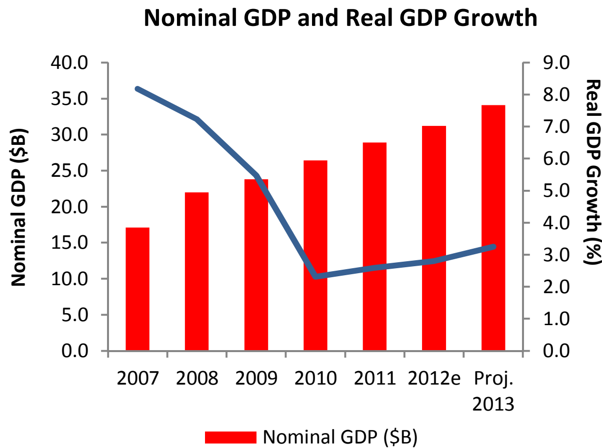
Regarding the equity markets, the down trend persisted, with Egypt index losing 13% during H1 of 2013 to close at 4,752.22 points. Around 10.9 billion shares were traded worth $6.75 billion during the first half of the year. Market cap stood at $45 billion down from $57.9 billion in December 2012.

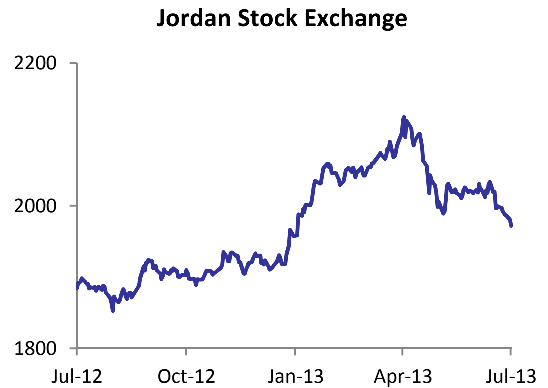
BLOMINVEST BANK S.A.L

Jordan Macro and Equity Market

Fears of Regional Spillovers Keep on Hindering Jordan's Economic Reforms

Key Macroeconomic and Equity Market Indicators





Surrounded by the war in Syria on the northern border and the Egyptian chaos on the western frontier, the Hashemite Kingdom of Jordan is struggling to maintain its pace of reforms on track. Jordanians weren't satisfied by government's economic and political reforms plan and appeared to be highly concerned by the U.S troop presence on their territory. Protests persevered in the second quarter of 2013 claiming against government corruption, rising commodity prices and several other social demands.

On the economic level, the International Monetary Fund (IMF) estimated the Gross Domestic Product (GDP) growth rate in 2013 at 3.3%, compared to 2.8% in 2012. The rising GDP couldn't prevent the unemployment rate progress that reached 12.6% in the second quarter of 2013 compared to 11.6% during the same period last year. Besides unemployment, the Department of Statistics (DOS) in Jordan revealed a 6.5% inflation rate in H1, up from 3.9% registered in the first six months of 2012.

Tourism and hospitality sectors in Jordan were negatively impacted by the ongoing geopolitical developments as total arrivals and departures declined by a yearly 11.8% in Q1 2013 to 7.12M visitors. According to the ministry of tourism, the number of tourists in H1 2013 dropped by 13.6% year-on-year (y-o-y) to 2.67M visitors compared to 3.09M tourists in 2012. The Central Bank of Jordan (CBJ) figures showed that tourism receipts fell 3.3% by June 2013 to $1.6B mainly due to the decline in tourists' coming for medical treatment. As for hotel occupancy rate, it tumbled by a yearly 16 percentage point (p.p) in H1 2013 to stand at 63% according to the Ernst and Young latest Middle East Hotel Benchmark survey.

With respect to the external sector, Jordan's trade deficit reached $5.59B up to May 2013, narrowing by a yearly 2.6%. Total exports (exports + re-exports) slightly declined by 0.3% y-o-y during the first five months of the year to stand at $3.22B, while total imports fell 1.8% y-o-y to settle at $8.81B. Imports' decline probably resulted from the stabilization of oil prices and the gradual recovery of the Egyptian natural gas imports.

On a positive note, Foreign Direct Investments (FDI) into the Kingdom had more than doubled in H1 2013 to reach $542M according to the Jordan Investment Board (JIB). Expatriates' remittances inched up by a yearly 2.5% during the first half of this year to reach $1.8B according to CBJ.

On the fiscal level, budget deficit widened to $0.39B by April this year, compared to $0.06B during the same period of 2012, according to the CBJ. The deficit resulted from a 14.9% y-o-y increase in public expenditures to $3.01B coupled with a 2.3% growth in Total Revenues and Grants to $2.62B. Foreign grants totaled $301.60M by April 2013 compared to $24.25M last year. Jordan succeeded to meet the requirements of the IMF concerning the $2B stand-by arrangement that aimed at fiscal consolidation. As a result, the IMF approved, after the first review in April, to release $385M under the 3Y loan program sending the total value of disbursements to date to $769M. The Gross Domestic Debt rose by a yearly 15.9% during the first five months of 2013 to reach $18.34B or around 53.8% of GDP.

The monetary situation revealed by the CBJ showed that the Jordanian market benefits from higher liquidity as money supply M2 rose 6.0% y-o-y to $37.00B in June which could lead to higher inflation in the future. Total deposits edged up by 6.2% from $35.23B In June 2013 to reach $37.40B this year. In details, both deposits in Jordanian Dinar (JD) and in Foreign Currencies (FC) grew in June by a yearly 5.0% and 9.7% to $27.26B and $9.64B, respectively. This indicates an observable trend among depositors' to favor FC on the expense of the JD partly due to the growing concerns about any downturn in the Kingdom's situation.

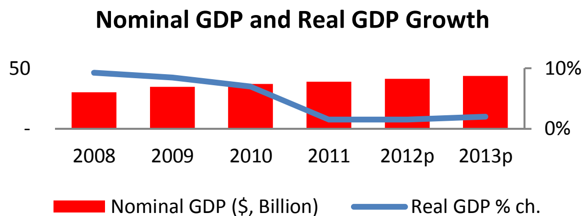
Despite some negative vibes, Amman Stock Exchange (ASE) Index closed 5.2% higher than last year's level at 1980.53 points in H1 widening its year-to-date performance to a positive 1.2%. Three out of five sectors ended the first-half of 2013 on a positive note and were the services, the industrial and financial market which each increased by a respective 3.7%, 2.7% and 0.7%. In contrast, the insurance and banking sectors dropped 4.5% and 1.2%, respectively. Activity on the ASE also improved as the average daily volume rose to 13.32M shares valued at $17.42M in H1 2013 as opposed to 10.15M shares worth $11.80M in 2012. The ASE's market capitalization slightly narrowed by 0.35% y-o-y to $25.92, while the number of transactions reached 655,219, up by 17.6% from 556,968 registered in H1 2012.

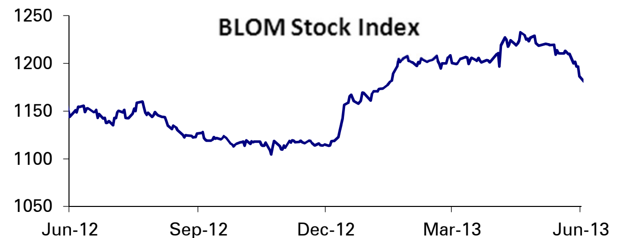
BLOMINVEST BANK S.A.L

Lebanon Macro and Equity Market

Lebanon Cripples on Serious Spillovers from Syria's War

Key Macroeconomic and Equity Market Indicators





Passivity dominated Lebanon's politics during the last period, as the ongoing war in Syria deepened the divide between political parties leading all major decisions to be postponed. Having failed to agree on an electoral law, the parliament's mandate was extended until November 2014 and the formation of the cabinet continues to stall since April. Recently, and with Hizbollah being openly involved in the Syrian Regime's defense against the rebels, the potential US strike on Syria after its accusation of using of chemical weapons, caused a widespread paralysis in Lebanon as the citizens and economic agents feared disastrous repercussions on their country.

While the political halls were deserted, the country's economy was left to its fate. Some microeconomic efforts arose but most of Lebanon's indicators reflected a struggling status. Real GDP is still expected to grow by a small 1% in 2013 but could go in either directions depending on the clearance of situation in Syria and the resume of political life in Lebanon. Annual inflation rose 2% in July due to price pressures from the emerging consumption brought by the 716,000 registered Syrian refugees in Lebanon in addition to a similar unregistered number. In fact, the recent influx of refugees had accentuated as a result of the US threat to strike Syria, resulting in one of every 5 persons in Lebanon being a Syrian, on average.

The war in Syria had certainly left its imprints on tourism to the region. But further worsening the case of Lebanon were its growing direct ties to the war-torn country, as well as the repeated security breaches on its land. Tourism figures showed a continued dip of 13.5% to 754,000 tourists by July 2013, coupled with a 10% drop in airport passengers. This represents a 43% plunge in tourists compared to 2010, noting that around 60% of this loss were Arabs steering clear from Lebanon. The recent threat to strike Syria had also led airlines to temporarily cut their flights and avoid the Lebanese airport.

Real estate and investments remained subdued in the country, but commercial activity picked up on the back of the rising needs of the new residents coming from Syria. The number of construction permits thus declined by 1.6% during the first half of the year as developers scaled down their projects. Kafalat also posted a 19% drop in the number of new loans with only the Bekaa region showing an increase over the last year. This could be explained by the new scope of business created from the refugees' increased presence in the region. To note that the Lebanese security forces counted 377 unauthorized Syrian-owned businesses operating in the Bekaa, and launched a campaign in September to close down non-compliant businesses. Back to measuring the commercial spending, cleared checks maintained an upward trend this year rising by 2% to $42 billion during the first 7 months, reflecting the increased level of domestic activity linked to the new comers' affairs management.

Regarding the external position of Lebanon, and following the increase in imports, trade deficit widened in the first 7 months of the year almost hitting the bar of $10 billion. The rising imports to $12.51 billion outpaced the 4.26% increase of exports to $2.6 billion. The latter increase was mainly attributed to re-exports to plagued Syria. Port of Beirut benefited from the bigger activity leading revenues from this hub to surge by 25% to $145.7 million by August. Despite the widening trade deficit, capital inflows and remittances sustained he balance of payments and contributed to a narrowing deficit of $957.2 million by July compared to $1,342.7M in the same period of last year.

The country's public finances represent an alarming situation. The contraction of revenues from tourism and telecom, coupled with rising expenditures, especially off-budget withdrawals, have led deficit to widen to $1.62 billion by May. On the bright side, the primary surplus regained its positive grounds after 3 consecutive months of deficits, thanks to the rise of revenues from taxes. Nevertheless, Lebanon's debt to GDP ratio is growing back up, having reached 142% in June 2013 after being tampered down to 135% in 2011 and slightly rising to 137% in 2012.

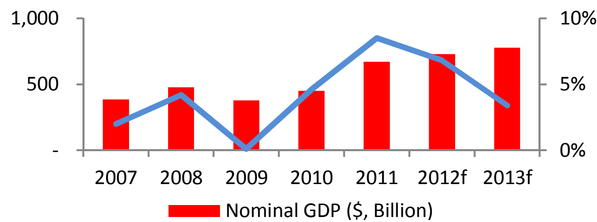
In the monetary sector, the situation was more coherent. The banking sector held its grounds with the Central bank's assets increasing by an annual 1% to $77.92 billion and Commercial banks' assets growing by 8.5% to $157.81 billion up until July. The Central bank attempted to capitalize on this growth to boost domestic lending and stimulate the economy. An anticipated circular will allow for the extension of repayment periods for the subsidized loans. Moreover, a recent circular opened the door for banks to invest in Lebanese startups and funds working under the knowledge economy's umbrella.

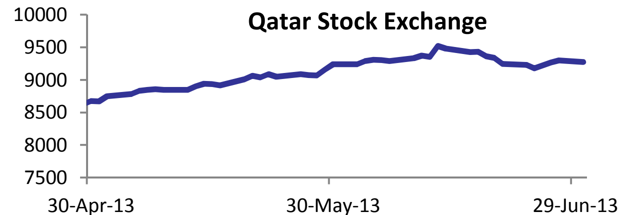
The Lebanese stock markets lost 4.64% as gauged by the BLOM Stock Index (BSI) in Q2, following a 2.72% growth in Q1, as many investors remained outside the market waiting for the situation in Syria to unfold. Market cap thus stood at $8.9 billion by June end down from $9.5 billion as at end of Q1. The Eurobonds' market delivered a similar performance, with the BLOM Bond Index (BBI) falling by 5% during Q2, following a previous 0.82% drop in Q1. The 5-year credit default swap jumped above the 500 basis points and was quoted at 464-514 bps in June end compared to 416-456 bps in Q1.

Qatar Macro and Equity Market

New Ruling, Same Vision

Key Macroeconomic and Equity Market Indicators





The most prominent event marking the oil and gas rich country of Qatar is undisputedly the designation of Sheikh Tamim bin Hamad al-Thani as the new crown prince, thus ending the 18-year ruling of his father Sheikh Hamad Bin Khalifa Al Thani. The peaceful transfer of the throne is an ultimate first for the country; however Qatar's strategy and vision for the future are unlikely to change under the new ruling. In fact, the country continues to be a major player of the "Arab Spring", handing a $3B lifeline for Egypt, in the form of bonds, in addition to (Liquefied Natural Gas) LNG supplies. According to the Central Bank of Egypt, Qatari investments in Egypt totaled $55M in Q2 2013 compared to $16M in Q1 2013. An unprecedented move is also one that allows Egyptian companies to enter the Qatari market without any guarantor; an agreement that will lift the burden of unemployment for the Egyptians and that will help the Qataris meet their deadlines for the FIFA 2022 projects.

GDP results relative to Q1 2013 confirm Qatar's successful diversification efforts. The real GDP in Q1 2013 is estimated at $24.29B, 6.2% higher than the same period last year. The Gross Value Added (GVA) of the non-oil and gas sectors increased by 10.6% y-o-y in Q1 2013 to $13.97B, outweighing the 0.8%yearly increase in the GVA of the oil and gas sectors to $10.32B. Accordingly, the biggest contributors to GDP were the manufacturing sector, the construction sector, financial services and trade, Restaurants and Hotels with respective y-o-y growths of 12.5%, 11.7%, 10.5% and 10.5%. These figures come as no surprise especially as Qatar is rolling out major projects ahead of the FIFA 2022 event. The boom in infrastructure and development projects are also characterized by high demand on unexploited land, reflecting developers will to start up new projects. Acknowledging the fact that the state still lacks touristic infrastructure, Qatar is aiming at rivaling other gulf countries such as Dubai in order to be not only a professional hub but also an entertainment attraction. Q2 tourism results portrayed an already bustling tourist activity, but with more than half the visitors being business visitors. Accordingly, the number of hotels under construction increased to 121 properties in the second quarter of 2013, from 110 at the end of 2012. Nevertheless, questioning whether these investments will ensure steady streams of income for the local companies is fairly legitimate especially that the major development contracts have been won by foreign companies.

The residential segment of the construction sector is however characterized by a shortage of supply, especially in one or two bedroom apartments. This shortage paired with the increasing demand for residential, commercial and tourist facilities is exercising upward pressures on inflation. In fact, the rent, fuel and energy component of the CPI, posting respective y-o-y growths of 6.2% in April, 6.5% in May and 6.8% in June, has consistently been a major contributor to inflation in Q2 2013. However, the steady decrease in the price of goods and services allowed inflation to ease from 3.7% in April to 3.4% in June.

Nonetheless, Qatar's economy remains robust and able to sustain any potential shock as reflected by the trade balance surplus. The latter stood at $8.59B in May, 0.5% higher on a year-on-year basis but below April's $9.67B. The monthly slip is owed to lower exports of $10.88B in May compared to $11.87B in April. In detail, exports of petroleum gases and other gaseous hydrocarbons, the largest constituent of overall exports, fell from $7.60B in April to $6.74B the following month, especially since Qatar's average crude oil price fell from $103.5/barrel in April to $101.4 in May.

Robustness on the foreign trade front is matched on the fiscal front. The expansionary fiscal stance is confirmed by the 44% surge in public expenditures to $17.74B in Q1 2013, which was outpaced by the 47% y-o-y rise in revenues to $21.86B. The share of the fiscal surplus in GDP increased from 5.3% in Q12012 to 8.1 in Q12013. Substantial government expenses are likely to persist throughout the year as Qatar announced its 2013-2014 budget encompassing total spending of $57.86B and based on a conservative oil price of $65/barrel. Particularly, infrastructure spending of around $140B through 2022 will be substantial in preparation for the FIFA World Cup.

In May, Moody's investors Service praised the hefty infrastructure spending as it will uplift banks' lending growth to 20-25% over the next 12-18 months and keep the share of non-performing loans in total gross loans at a low 2%. The overnight interbank interest rate reached 0.66% in June, its lowest level since 2008, thus boosting lending activity. Accordingly, lending rates (credit cards, cars and loans) are all on a downward trend despite the rising demand for public sector credit generated ample liquidity on a highly competitive market. Up to June, claims on the public sector, making up 45% of total domestic credit posted an 18% y-o-y increase to reach $62.16B. Overall loans increased by 6.6% year-to-date in June but were outstripped by a 16.8% y-t-d growth in deposits, pushing the loans to deposits ratio to 102% in June compared to 105% in May.

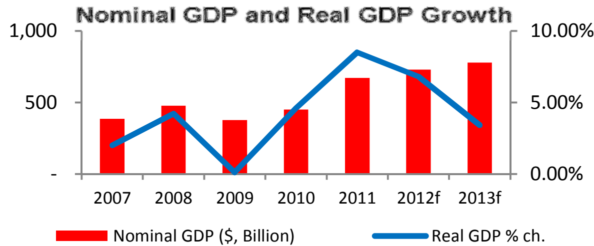
The Doha Stock Market Index (DSMI) ended the month of June at 9,275.56 points, 7% higher than April's close. Over the course of Q2 2013, 579,813,981 shares, worth $5.72B, were traded. The top performing sectors were real estate and transportation as their indices surged by 19% and 15% to end the second quarter at 1,845.48 points and 1, 667.40 points. The insurance sector was also amongst the best performers, posting a 10% rise to 2,233.05 points. The only sector to end Q2 with a loss is the industrial sector, slipping by 2% to 3,101.15 points.

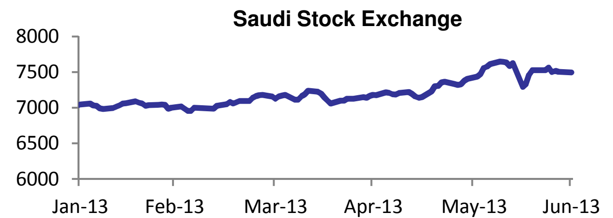
BLOMINVEST BANK S.A.L

Saudi Arabia Macro and Equity Market

Robust Economy In spite of Hydrocarbon Slowdown

Key Macroeconomic and Equity Market Indicators





On the international front, the Kingdom of Saudi Arabia assumed a bigger role amidst the regional uprisings, by taking a sharp stance against the Syrian regime. The Kingdom is actively arming Syrian rebels and pleading the international community to follow. Internally, the Kingdom continued to ramp up its labor market initiatives by closing in on employers violating the fixed quota of Saudi workers. These restrictions are mainly affecting small sized enterprises whose restrained profit margins prevent them for hiring the more expensive Saudi workforce and are also reducing the number of entrepreneurial projects as expatriates quit their jobs. However, in order to avoid major disruptions, authorities granted a three month-extension of the grace period in April.

Real GDP growth reached 2.7% y-o-y in Q2 2013 compared to 5.5% in Q2 2012. This deceleration is accredited to a 4.7% decrease in oil production, since the shale oil revolution is likely to inflate non-OPEC supply, which drove the oil sector to post the weakest growth of -3.71%. Contrastingly, the GDP relative to the public sector posted a 5.5% year-on-year upturn. In fact, demand for government services surged by a yearly 21.39%, outpacing demand for private services (5.59% y-o-y growth) and for fixed capital formation (-0.75% slip). Moreover, the private non-oil sector fueled overall growth, recording the highest contribution of 2.4 percentage points. In focus, although construction activity recorded a substantial 6.5% y-o-y growth in Q2, it slowed from Q1's 6.7% due to the implementation of more stringent labor market regulations.

Given the excessive housing demand and the bustling tourism season, rental and food inflation continued to account for the bulk of overall inflation. Domestic food prices followed the international upturn as the Food and Agriculture's Organization Food Price Index grew by 5.4% y-o-y in June. Nevertheless, while remaining elevated compared to its trading partners, Saudi Arabia's inflation moderated across the second quarter of the year, going from 4.0% in April to 3.5% in June. Especially as the ongoing strength of the dollar, to which the Saudi Riyal is pegged, has helped limit imported inflation.

In fact, the Kingdom's imports increased by 0.2% yoy to reach $13B in June while non-oil exports increased by 6.4% y-o-y to reach $4.6B. Hence, while non-oil exports covered 32.1% of imports in June 2012 this ratio rose to 34.1% in the same month of 2013. Nonetheless, forecasts for 2013's balance of payments signal a narrower surplus as active domestic demand boosts imports and as lower oil prices pull down revenues from oil exports. Business Monitor International (BMI) forecasts a current account surplus at 18.6% of GDP in 2013, down from 23.7% in 2012. However, as the Saudisation policy continues its strong headway, remittances outflows are expected to decelerate, thus reducing the extent to which the current account surplus shrinks.

Despite a potential reduction of the current account's surplus, the kingdom's economy remains supported by the government's lax fiscal policy. In April, the King gave the green light on a $66.7B housing construction program that has already been on the government's agenda since March 2011. According to the decree, the Ministry of Municipal and Rural Affairs must grant some of the lands it owns to the Ministry of Housing, in order for the latter to build infrastructure that meets citizens' needs. This measure will benefit the low and middle-income category of the population which have the hardest access to home-ownership and will also greatly reduce elevated land prices. However, the government remains under pressure to keep oil prices afloat in order to sustain the high levels of household expenditures and infrastructure project. The government is also seeking to nationalize the retail sector, a decision that is likely to tackle the issue of high unemployment amongst Saudi nationals by generating 600,000 jobs.

On the monetary front, broad money M3 grew by 2.7% in Q2 2013, compared to 2.4% in the previous quarter. Concurrently, the Saudi Interbank Offered Rates (SIBOR) dropped from 0.99 in Q1 to 0.96 in Q2, thus creating a favorable lending environment. Meanwhile, bank claims on the private sector increased by a quarterly 4.6% to $288.54B faster than a 3.5% growth rate in Q1. Claims on the public sector rose by 2% to $70.86B compared to 18% in the past quarter. This slowdown is due to Saudi banks' attempt to avoid overheating on their balance sheets despite the healthy progression of deposits that reached 2.8% in Q2 compared to 2.5% in Q1. Given the Kingdom's firm commitment to a monetary policy aiming at price stability and to an expansionary fiscal policy, it comes as no surprise that long term credit registered the fastest growth rate of 5.9% in Q2. Loans' sectorial allocation indicated that the mining and quarrying sector took the lead with a 13.7% growth rate in Q2 while in contrast the building and construction sector posted the lowest advance of 1.8% as it remains obstructed by cement shortages and lack of equilibrium between supply and demand.

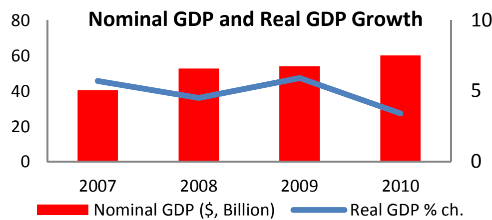
The Saudi Stock Exchange Index (SSEI) closed at 7,496.57 points in June, 4% higher than May's close. The top performing sector was real estate development as its index posted the biggest gain of 17% to close at 4,580.63 points. The retail and banks and financial services sectors followed suit rising by 9% and 8% to 9,545.19 points and 1,361.70 points, respectively. The largest loser was the insurance sector, declining by 13% to reach 1,170.34 points by end June, while the sectors of Media & Publishers and Hotel & Tourism both slid by 3% to settle at 2,950.31 points and 11,610.77 points, respectively.

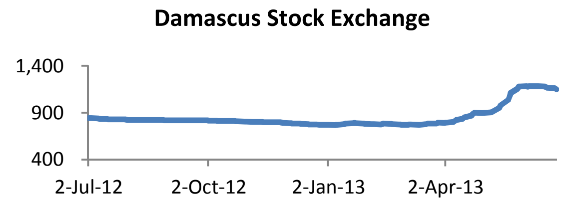
BLOMINVEST BANK S.A.L

Syria Macro and Equity Market

Regime Faces Threats of International Intervention

Macroeconomic and Equity Market Indicators





Apart from the military reports tracking the wins and losses of battles between the regime forces and the opposition gunmen, Syria has little left to say about its economy. The prolonged war already left over 100,000 deaths and displaced over 6 million people, one third of the Syrian population. Lately, the international patience seemed to have run out. The United States threatened to strike defined targets in Syria to punish the regime on a proclaimed use of banned chemical weapons against civilians. The declaration to strike resulted in major controversy inside of the States, as well as amongst its allies and rivals, paralyzing the decision and re-instating the need for diplomatic negotiations.

Nevertheless, this indecisive statement made room for wide speculations and preparations for extreme scenarios, posing additional pressures on Syria's economy.

Syria's nominal GDP is now estimated at $36 billion, about 60% of its pre-war level. An underground economy is growing in rebel-held territories but remains difficult to gauge. Real GDP is projected to further contract by 13% in 2013 as the country's output continues to shrink and oil production slashes. Increased smuggling, shortage of commodities and the collapse of the exchange rate kept inflation high at around 51% according to latest official records in February 2013.

On the external sector's level, trade deficit narrowed to $6.5 billion on the back of poorer imports and exports. The government further tightened its restrictions around imports to control speculation, secure foreign currencies and remain the sole provider of first necessities. As such, a new law was passed in June that obliged private-sector traders to get a prior license for each import transaction. Protective measures were also taken around national productions such as bottled water and wheat. Both benefited from a ban on similar imports. The government is facing increased troubles in satisfying its tender offers for imports despite offering premiums as high as 10% on market prices, due to international sanctions imposed on dealership with Syria. On the other hand, smuggling channels using new routes such as from Mersin port, Turkey, are fostering imports to rebel-held territories. Imports from Lebanon are also finding their way to Syria's regime and opposition.

Meanwhile, the EU embargo on Syrian oil curbed all oil revenues with barely any exported so far into 2013. The loss of oilfields to rebels contributed to a reduced production of an estimated 95,000 barrels per day. To note that oilfields under the control of the opposition were spared from the EU ban, but no current company is positioned for such trades. In addition, the divide among opposition has led to some oil fields to be under the control of Jabhat Al Nusra, the terrorist al-Qaeda linked front in Syria.

Syrias' fiscal deficit is estimated to have reached about 14% of the country's GDP as tax revenues from businesses are depressed, and customs tariffs are reduced due to lower trades. About 25% of revenues once came from oil but currently, one of the few sustained revenues are the government's share of Syria's two mobile phone operators, Syriatel and MTN-Syria, which have reported lower profits in H1. On the expenditures side, the government scaled back fuel subsidies and unofficially remapped gas distribution to relative safe areas. New plants are set up in collaboration with Russia and Iran in regime-controlled areas, with capital and military spending leading net public debt to GDP to grow to 63% from 35% in 2011.

In the monetary sector, the official devaluation of the pound is still denied as an option, but the gap is widening between the black market and the official figures. The former fluctuates around 220 SYP/USD and the latter around 129 SYP/USD. The central bank is attempting to reduce liquidity in the market to limit the impact of the exchange rate's free fall. At the same time, measures to de-dollarize the economy continue. The government detained unlicensed exchange dealers who now face jail from 3 to 10 years for dealing in the black market. As an alternative to the black market's foreign exchange, the central bank authorized private banks to provide individuals with foreign currency on very tight conditions, with a limit of $500/month and a maximum of $10,000/year, but set the rate at 175 SYP/USD to beat the black market. The central bank supplied banks with necessary funds but refused to disclose the amounts. Likewise, reliable data on the present level of the central bank's foreign exchange reserves is not available.

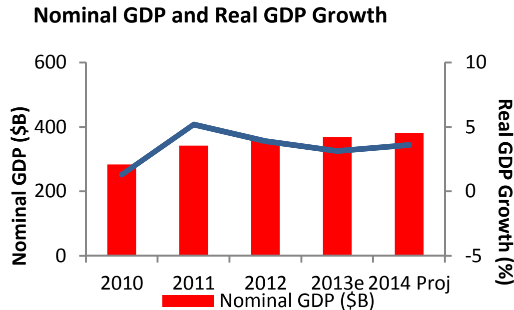
The Damascus exchange fared exceptionally well during the second quarter of 2013 recouping a lot of its previous losses. The Damascus exchange index closed at 1,148.95 on 26th of June 2013, with 6 million shares traded worth $8.4 million compared to 4 million shares worth $4.62 million in the previous quarter. Market cap ended at $939 million up from $928 million in Q1. Banks' share prices have risen as they offered investors a means of indirectly hedging against the depreciation of the Syrian pound. In fact, the private Syrian banks continued to grow their assets but the currency's devaluation is tumbling their balance sheets when seen in US dollar.

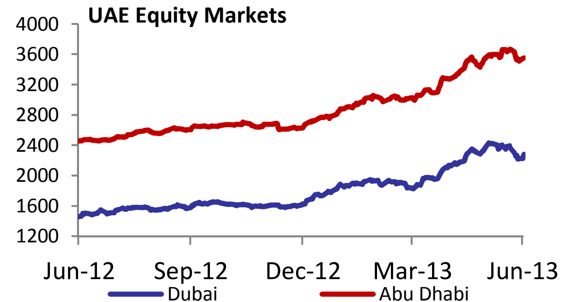
BLOMINVEST BANK S.A.L

UAE Macro and Equity Market

The Outlook Remains Prosperous amidst bolstered Economic Fundamentals

Key Macroeconomic and Equity Market Indicators





The United Arab Emirates (UAE) remain a safe haven despite the minor attempts to destabilize its security and the political developments in the MENA region. The Emirates declared the launch of several projects during the first quarter of 2013 targeting consistent growth on a long term perspective, of which: the reduction of UAE's domestic reliance on fossil fuels energy by getting 25% of its power from nuclear energy by 2020. It also announced the launch of DubaiSat-3, a 4-year space technology project.

On the economic level, real GDP growth was projected by the International Monetary Fund (IMF) to stand at 3.1% in 2013 relatively lower than the 3.9% recorded in 2012.Looking at inflation for the two main Emirates during Q1 2013, the consumer price index in Abu Dhabi rose 1.1% whereas Dubai CPI added 0.16% y-o-y in March 2013. Moreover, the renewed confidence in the economy and the real estate sector pushed rents and property prices up in Dubai and Abu Dhabi, during the first quarter of the year.

The tourism industry in Dubai recorded a steady growth during the first quarter of 2013 with Dubai International airport becoming the world's second busiest hub in the world by 2012. The ongoing expansion projects at the airport boosted the number of its passengers to a record level of 16.48M in Q1, 15.6% higher than the same period last year. Moreover, Dubai Duty Free recorded a 12% y-o-y growth in sales accounting for $0.43B in Q1. The promising performance extends to Abu Dhabi that witnessed a 78% hotel occupancy rate during February, up by 12% from the same period last year.

With respect to the external sector, UN Conference on Trade and Development (UNCTAD) ranked UAE as the largest capital exporter in the Arab world over the past three decades. The Emirates Foreign Direct Investments (FDI) amounted for $55.5B during 1980-2011, according to the report figures, representing 31% of the total Arab FDIs outflow. As for FDI inflow, the report showed that, over the same period, UAE came second after Saudi Arabia with FDI inflow around $85.4B. The Institute of International Finance (IIF) estimated that the Emirates trade balance surplus will extend 3.9% by the end of 2013 to reach $120.6B as imports and exports are expected to rise by 2.6% and 3.1%, respectively.

UAE fiscal performance in 2013 is expected to record a surplus of 9.5% of GDP, according to the IIF latest figures compared to the 11.7% surplus estimated for 2012. General government revenues are estimated to drop 2.0% y-o-y to reach $123.11B, while total expenditures projections (excluding net lending) are towards a 4.9% increase to stand at $86.56B. Dubai's government announced its budget for 2013, aiming to expand public spending by 6.0% and government revenues by 7.2% compared to 2012. In addition, the government is planning not to use oil revenues to fund infrastructure projects.

On the monetary front, M2 rose 4.0% during the first quarter of 2013 to $247.13B compared to $237.71B recorded by the end of Q1 2012. The monetary aggregate M3 followed the same path increasing by 7.4% to reach $311.77B by the end of March 2013. According to the Central Bank of UAE, total deposits grew by 8.0% on a quarterly basis to stand at $334.26B with a bank lending growth of 4.8% to $303.97B at March 2013.

On the equity side, Dubai Financial Market (DFM) index increased by 12.3% , from 1,629.07 points at the end of December 2012 to 1,829.24 points at the end of March 2013. Despite the 15% decline in the number of trades to 216,829 transactions, the average trading value in the first quarter of 2013 added 5% to $90.73M compared with $86.37M in Q1 2012. Market cap was wider by an annual 13%, while the total volume transacted during Q1 fell by 7% compared to a year earlier for a total value of $5.63B compared to $5.53B in Q1 2012. The transport and real estate sectors were the best performers on the DFM surging by a respective 82% and 20% in Q1 2013, while the insurance, utilities and materials sectors retreated 18%, 16%, and 14%, respectively. In Abu Dhabi, the market index reached 3,025.33 points, recording a 15% growth since year start and 18.5% y-o-y increase. Average daily value in Q1 2013 jumped 82% y-o-y to $55.52M, for an average volume of 162.40M shares, while the number of transactions reached 102,438 compared to 91,136 in Q1 2012. Total value during Q1 was $ 3.44B with a market capitalization that knocked the $77.31B by the end of March 2013. On the sectors level, real estate conquered Abu Dhabi Stock Exchange (ADX) with a 33% progress, while the insurance sector was the biggest loser on the ADX dropping 13% by the end of Q1 2013.

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rashid Karameh Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 743 300
Fax: +961 1 737 414
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 743 300 Ext: 1234

Maya Mantach, Senior Economist
maya.mantach@blominvestbank.com
+961 1 743 300 Ext: 1240

Mirna Chami, Research Analyst
mirna.chami@blominvestbank.com
+961 1 743 300 Ext: 1285

Riwa Daou, Junior Economist
riwa.daou@blominvestbank.com
+961 1 743 340 Ext: 1256

IMPORTANT DISCLAIMER

This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. BlomInvest SAL can have investment banking and other business relationships with the companies covered by our research. We may seek investment banking or other business from the covered companies referred to in this research. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research. We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Copyright 2012 BlomInvest SAL.
No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of BlomInvest SAL.