December 2013

MENA Review and Quarterly Outlook

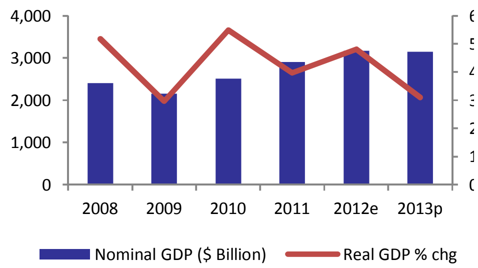
BLOMINVEST Views on Regional Economic and Financial Developments for Q3 2013

View of the Quarter

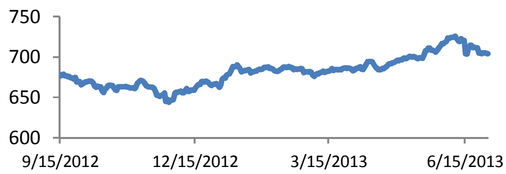
The gap further widened between oil importers and oil exporters in the Middle East during the third quarter of 2013. The formers' economies suffered from political turbulences with deteriorating resources to hedge upon for survival, while the latters' economies marched on enhancing schemes to boost growth. To start with **Syria**, the Middle East's current core war replacing the Israeli/Palestinian conflict, the situation on field remains unresolved with the opposition splitting into multiple rival camps. The economy descends into the abyss and diplomatic clearance awaits the Geneva conference in 22 Jan 2014. In **Lebanon,** no political power is exercised with a caretaking government and failed attempts for a new one, increasing the sovereign risk of a country already situated in a heavy conflict zone. A long list of security incidents further dampened consumption and investment thus tightening resources to the country. **Jordan** suffered from the Syrian influx weighing on its markets and regional turbulences hindered tourism, otherwise economy is expected to record a good growth exceeding 3% for both 2013 and 2014. In **Egypt** where the demonstrations-driven politics ruled over the past 2 years, the transitional government has new allies and foreign aids from KSA and UAE are expected to alleviate the economy until a political stability is achieved. On the oil exporters' side, **Qatar** focuses its efforts on growing domestic lending and increasing national employment while maintaining a robust economic growth. Labor strategies are more pronounced in **Saudi Arabia** which has also increased oil production to compensate for shortfalls arising from supply disruptions in the Middle East. As for the **UAE**, the recovery from 2009 crisis continues, supported by diversified projects non-inclusive of oil leading to an estimated 4.3% growth in the non-oil sector for 2013.

HEADLINES

MENA GDP Indicators



S&P Pan Arab Composite Index



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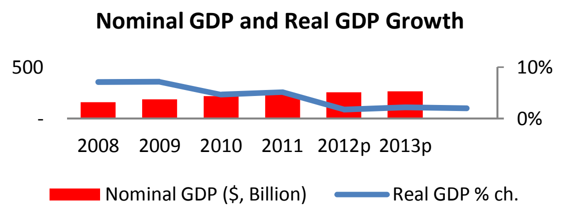
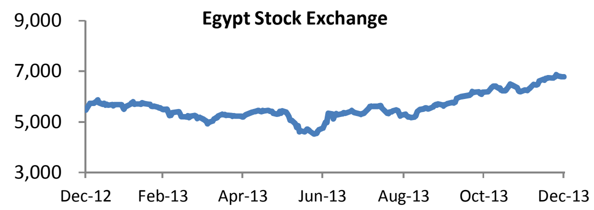
Egypt Macro and Equity Market

Egypt's Economy Holds on Foreign Aid from Shifting Allies

Key Macroeconomic and Equity Market Indicator





The political divide between army forces and Muslim brotherhood supporters continues to widen with almost every demonstration ending up in bloody clashes. The army-backed government eventually decided to allow only pre-approved or notified protests, therefore sparking a large controversy over the limits of democratic practices versus the need to enforce peace. Nevertheless, and while the government seems committed to its roadmap towards presidential and parliamentary elections set for early 2014, Egypt's economy benefited from Arab generosities to clear up its situation amidst westerner cautiousness with regard to its new military face.

In the last quarter of year 2012/2013 going from March till June, Egypt's real GDP growth climbed 1.5% bringing the whole year growth to 2.1% following a similar rate of 2.2% in the previous year. Since Moubarak's ousting and throughout Morsi's unorthodox practices back to his own ousting again, Egypt has held up thanks to foreign aids from changing allies in the Arab region and a well-entrenched and diversified base of revenues for the state. For the year 2013, the International Monetary Fund (IMF) expected a slower pace for the economy's growth at 1.8% with GDP reaching around $262 billion.

Key sectors continued to underperform their potential, especially manufacturing, construction and tourism, in addition to the contraction in the petroleum sector. Inflation rose back to an annual 10.44% in October, however the upside risks of inflation are limited by the negative output gap. In fact, the Monetary Policy Committee (MPC) decided in late October to keep the overnight deposit rate, overnight lending rate, and the rate of CBE's main operation unchanged at 8.75%, 9.75% and 9.25% respectively, although this comes after 2 previous cuts by 50 basis points each since August to provide stimulus.

According to recent official reports covering the fiscal year 2012/2013, tourism revenues ended the year in June with a growth of 3.5% as the number of tourist nights posted 142.2 million against 131.8 million nights in the previous year. In addition, transportation revenues increased by 7% thanks to larger receipts of Egyptian navigation and aviation companies, despite a 3.4% decline in Suez Canal receipts. This could be attributed to new routes favoring Egypt's space and territories to avoid war-torn Syria. The relative safety of Egypt's southern areas and the boosting packages from the Central bank in addition to the simple visa formalities with many Arab, Asian and Eastern European countries succeeded in partly reviving tourism during the past months but figures are yet to be released.

In the external sector, trade deficit dropped by 7.6% during the year ending June 2013 at $31.5 billion thanks to a rise in exports and a slight drop in imports. Private transfers from migrant workers also surged to $19.3 billion from $18.4 billion. Egypt remains the largest receiver of remittances in the Middle East with a new preference for its workers to head to Saudi Arabia and more recently UAE. These developments led to a welcomed cut in the Current account deficit by 45% to $5.6 billion against $10.1 billion during the previous fiscal year.

Egypt's foreign affairs continue to have the largest impact on its balance of payments. By the end of the fiscal year 2012/2013, Egypt's balance of payments stepped back in the green recording a small surplus of $237 million, against a deficit of $11.3 billion a year earlier. This was achieved thanks to the $7.5 billion deposited by Qatar during ousted president Morsi's rule. However, since then, relationship with Qatar, main supporter of Muslim brotherhood, deteriorated and some deposits were already returned. CBE returned $2 billion in September after talks to convert them to bonds broke down. $500 million were also paid back in November and a similar payment is scheduled for December. Wary Arab countries of the Muslim Brotherhood movement, KSA, UAE and Kuwait, stepped in to bailout Egypt after the toppling of Morsi, pledging around $12 billion of foreign aid of which $6.5 billion are already deposited at the Central Bank. This should keep the country's balance of payments in the shades. Moreover, Egypt cut its diplomatic relations with Tunisia and Turkey, both supporters of Muslim Brotherhood, however little impact is expected on Egypt's economy as a result.

The fiscal deficit reached 13.8% of GDP by the end of year 2012/2013, according to ministry of finance data. This figure surpassed all previous forecasts and revised estimates of the government, due to a sharp annual rise of 23.7% in total expenditure, against a lesser rise of 13.5% for revenues. Subsidies for energy were the main drain partially offsetting the revenues from the Egyptian General Petroleum Corporation. Egypt has been under pressure to reduce or control its fuel subsidies however this reform is not expected anytime soon. Instead, some of the Arab gifts to Egypt were in fuel therefore helping Egypt reduce its cost base and incurred losses from petroleum activity. The forward budget of 2013/2014 forecasts considerable rise in revenues by 47% and an 18.4% rise in expenditure leading to a forecasted deficit of 9.1% of GDP, a tough mission to achieve should tourism fail to recover.

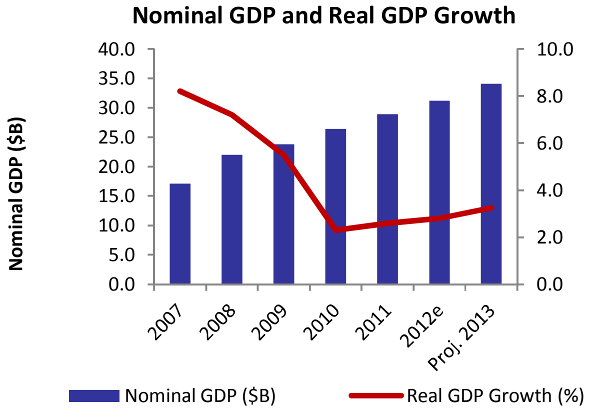
In the financial sector, an interesting development was noted as the Central bank's recently allowed commercial banks to practice and market banking insurance within a set framework and regulations, therefore creating new opportunities and achieving synergies. As for the domestic currency, the Egyptian pound was positively affected by the foreign inflows. Moreover, the central bank of Egypt sold $5.68 billion to banks so far and since the beginning of the regular auctions in late 2012 to relieve pressure off the pound, in addition to $2.7 billion off-cycle. The last transaction in late November was quoted at 6.87 EGP/ USD, compared to a reigning price in the black market at around 7.23 EGP/USD. The CBE's international reserves stood at $18.59 billion at the end of October.

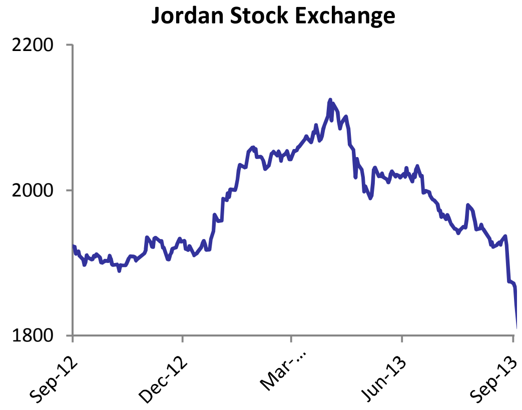
The financial markets continue to be remarkably sensitive to the political developments. Egypt's bourse gained 30.13% since the first half of 2013 and up until the end of November. A total of 11.87 billion shares were traded worth $5.57 billion during this period against 10.9 billion shares worth $6.75 billion in the first half. The market especially picked up during July and October jumping by 12% and 10% respectively, while the lowest performance was recorded during August and November at -1.07% and 0% respectively. The bourse is still expected to correct upwards especially if there is consensus over the constitution which was last declared to be ready by December, although failure to do so might bring a harsh drop. Market cap stood at $58.9 billion by November end compared to $45 billion at June's end.

Jordan Macro and Equity Market

Economy on Road to Recovery Remains Burdened by Regional Complications

Key Macroeconomic and Equity Market Indicators





The Hashemite kingdom of Jordan maintained its upward momentum in a volatile regional political climate that kept on threatening the stability of the country. In this context, several efforts pursuing US help in monitoring border with Syria were made to limit the negative repercussions of the 3-Year neighboring war. Besides the continuous disruptions in Egypt's gas supplies, electricity price hikes (15%) went into effect by Mid-August, for businesses and high usage households only, aiming the reduction of budget deficit that threatens economic growth.

On the economic front, good progress characterized the past quarter with the projected Real Gross Domestic Product (GDP) growth for Jordan by the International Monetary Fund (IMF) standing at 3.3% for 2013 and 3.5% for 2014. However, the Syrian influx to Jordan weighed over the unemployment rate that reached 14.0 % in the 3rd quarter of 2013 compared to 13.1% during the same period last year. Inflation continued to increase, reaching 6.1% y-o-y by September 2013 from 4.19% by September last year.

As political instability governed the MENA region, tourism and hospitality markets in Jordan suffered sharp losses in terms of arrivals and departures, tourism receipts, and hotels' occupancy rates. The numbers of arrivals and departures each dropped 14% from last year to stand at 4.98M and 4.81M, respectively by August 2013. Tourism receipts decreased 6.8% y-o-y over the same period to amount for $2.23B, according to the Central Bank of Jordan (CBJ). Ernst and Young Middle East Hotel Benchmark report posted an occupancy rate of 61% for Amman in the first eight months of 2013 compared to 72% last year.

With respect to the external sector, trade deficit widened 8.3% y-o-y to reach $9.22B, up from $8.51B by August 2012. This resulted from the yearly 5.1% increase in imports to $14.45B with total exports (domestic exports and re-exports) edging down by 0.2% y-o-y to $5.23B. Total exports covered 36.2 % of imports during the first eight months of 2013, while it was 38.1% for the same period of 2012,

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The fiscal deficit narrowed by July this year to $522.26M down from $2.08B during the same period last year. Total revenues surged by an annualized 20.1% to stand at $4.90B mainly due to the progressive increase of foreign grants that went up from $35.53M by July 2012 to $665.66M during the same period this year. Almost $500M of the grants came from Saudi Arabia and United States of America (USA). Total expenditures also edged up by 9.0% y-o-y to reach $5.42B. As for net public debt (domestic and external), it stood at $17.63B or 73.5% of GDP by July 2013, posting a 6.34% year-to-date increase. To date, Jordan has received $774M under the $2B loan accorded by the IMF that decided to release some of the program's targets due to the Syrian spillovers on the Jordanian economy. However, the IMF admired the Jordanian progress in the implementation of the program despite the tough situation.

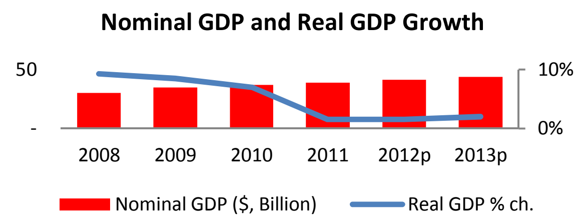
The banking sector remained solid over the first eight months of 2013 with the market enjoying higher liquidity as money supply M2 broadened by 8.1% y-o-y to $38.26B. Total deposits rose by a yearly 7.9% to hit $38.28B by the end of August this year. In detail, deposits in Jordanian Dinar (JD) and in Foreign Currencies (FC) witnessed respective increases of 8.7% and 5.5% to $28.73B and $9.56B. This indicates an increasing role of the JD that continued to dominate total deposits despite the previous shift among investors towards FC. Accordingly, investors showed an improving confidence in the local currency revealing positive prospects about the Kingdom's future.

Amman Stock Exchange saw a weak performance in Q3 2013 with the market's index declining almost 6.6% compared to the previous quarter, and 5.5% from December 2012 to 1,850.59 points. As for its y-o-y performance, it tightened by 2.7% reflecting investors' fear over the regional political developments. The total volume traded reached 2.06B shares worth $2.72B compared to 1.82B shares valued at $2.04B recorded a year earlier. Average value of daily trades by September 2013 was $14.53M up from $10.70M in Q1, while market capitalization slid 12.9% in the first nine months of 2013 to $23.33B. The number of transactions reached 838,191, up by 9.6% from 764,627 registered by September 2012.

Lebanon Macro and Equity Market

Facing the Political Void

Key Macroeconomic and Equity Market Indicators



The political stalemate in Lebanon continued to hinder any active approach to solve economic matters or otherwise during the 2 last quarters of 2013 as no signs of a near assignment of a government appeared while talks about presidency elections intensified. A twin suicidal bombing on the Iranian embassy in Beirut during November further reflected the high correlation between the regional situation and Lebanon's status, freezing activity ahead of the holiday seasons.

The International Monetary Fund (IMF) revised Lebanon's projected real GDP growth for 2013 down to 1.5%, from a previous 2% on the back of a harder fiscal situation. Inflation remained subdued at 0.2% as of October, pressured by the cautious consumption and the subsequent price discounts to encourage it.

BLOM Lebanon PMI for the months of October and November revealed contractions in the activity of the private sector especially aggravated during November following the suicidal bombings. The poor conditions in Lebanon and the region continued to stress tourism, which recorded a drop of 7.3% in the number of visitors by November to 1.16 million. Accordingly, revenues to hotels per room saw an annual 25% decline to $87, the second highest fall behind Cairo, according to Ernest and Young Middle East benchmark report of October.

The real estate sector, standing at 14% of Lebanon's GDP according to 2011's national accounts, stalled further as dominant developers postponed their investments' agendas. The number of construction permits declined by 6.9% yoy while the number and value of real estate transactions tumbled by 5.22% and 4.52% up to September respectively. The share of foreigners was a little less than 2%. Month on months trends were revealing a recovering trend during September and October, however the suicidal bombings quickly reversed this trend.

Regarding the external position, trade balance deficit broadened by 7.7% to $15.62B during the first eleven months of 2013 compared to a deficit of $14.51B in the same period last year on account of higher imports and lower exports. Syria remained on top of the list of importers from Lebanon with a stake of 13%. Port of Beirut continued to flourish benefiting from the increased activity diverted from Syria, with its revenues surging by a yearly 26.9% to reach $201.22M during the first eleven months of 2013.

With regards to the country's fiscal position, the government spending multiplied, jumping by 6.2% to $7.92 billion by October to meet social and health needs arising from the alarming status of the refugees at the beginning of winter, while revenues dropped by 2.2% to $11.44billion due to two factors. The first being the additional decline in tourists' numbers and the second is the 15% slump in telecom revenues. The deficit expanded by 31.46% y-o-y to $3.52B by October 2013 coupled with a primary deficit of $313.37M, compared to the $433.93M primary surplus recorded in the same period last year.

The banking sector upheld its immunity to overall deteriorating conditions with Commercial banks growing their assets by 8% yoy to $160.63 billion, however further raising the voice in favor of a political action set to face the country's challenges. In fact, Lebanese banks' ratings were revised down due to the reviewing of the sovereign rating, as a local bank cannot be assigned a higher rating than its country of operation unless a certain geographical and operational diversification is achieved to mitigate the country risk. The rating agency Fitch had changed the sovereign foreign currency long term credit rating for Lebanon to negative, while the credit rating remained at B, five notched below investment grade. S&P rated Lebanon 'B-' with a negative outlook, one notch below Fitch and Moody's has the nation above Fitch at 'B1' with a negative outlook.

Lebanese banks held $17.75 billion in Eurobonds and $18.77 billion in treasury bills as at September end, which is 28.43% and 30% respectively of Lebanon's gross public debt. This share is somewhat acceptable, noting that by being the largest holders of debt, Lebanese banks could temporarily spare the government the resulting rising debt costs from the worsening ratings. Lebanon's gross public debt had risen to 139.7% of GDP by October compared to 134.3% in October last year, continuing the reverse trend triggered since the start of the Syrian crisis.

The central bank continued to grow its assets reaching $78.50 by mid-December, although the value of held gold was dropping following the international decline in the metal's price. The BdL has been turning its attention to regulations and statistics, lately issuing a circular organizing the compilation of foreign direct investment in Lebanon, a critical indicator to measure to improve financial decision making regarding the country's balance of payments.

In the financial markets, Lebanon's long list of security incidents during the last 2 quarters of the year restrained activity and prevented confident gains. The stock market added 0.59% during Q3 as measured by BLOM Stock Index (BSI), only to later lose 0.15% in Q4 and end the year with a 2% drop compared to 2012. The BSI hit its lowest level of 1,124.74 points in September after a prolonged political deadlock persisted following sporadic bombings across the country. The Eurobond markets didn't fare better, losing 3.3% during the year.

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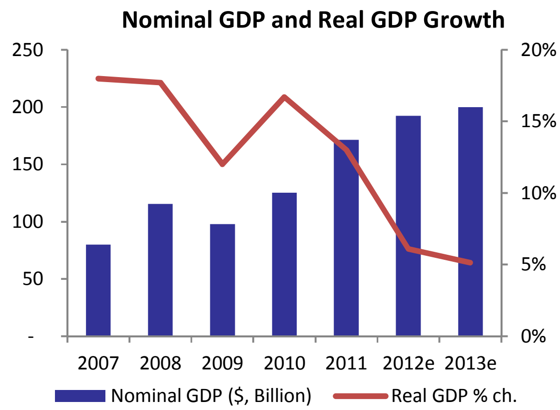
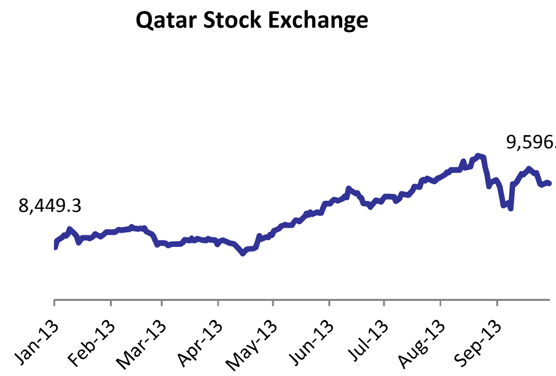
Qatar Macro and Equity Market

Dealing With the Ramifications of the Expatriates' Inflow

Key Macroeconomic and Equity Market Indicators





While still enjoying stability on the domestic front, Qatar maintained its stance on foreign agendas, mainly backing the Syrian opposition and the Muslim brotherhood in Egypt. However, by late September, Egypt's central bank governor announced that it has returned $2B in aid money to Qatar.

The latest edition of the MasterCard Consumer Confidence Index was very robust standing at 96.4 well above the Middle East's aggregate score of 78.5. When compared to the past edition of the Index released six months ago, consumers are more optimistic about Employment (99.4 vs. 98.1), Economy (98.0 vs. 97.0) and Quality of Life (97.2 vs. 96.2). The same goes for their view on Regular Income (95.7 vs. 99.3) and Stock Market (91.7 vs. 92.0), despite a slight decrease in score when compared to the previous edition of the Index.

Positivity about employment is fairly justified with the substantial emphasis placed on "the Qatarization Strategy". With the inevitable inflow of expats, Qatarization efforts are being carried in parallel. In the past three months, the Ministry of Labor and Social Affairs has attempted to increase national employment in the private sector, more specifically the technical sector where national labor is scarce.

Despite the consistent demographic growth, inflation seems to be kept under control. In September, overall population grew by 10.3% y-o-y to 2.04M but inflation reached 2.7%, its lowest level of the year. Throughout the year, the evolution of prices has followed the same pattern. Broadly, "Entertainment, Recreation and Culture", "Rent, Fuel and Energy" and "Medical Care and Medical Services" have been the core drivers of inflation. The weight of the "Rent, Fuel and Energy" component is clearly the largest, since inflation calculated after its exclusion dropped to 1.4% in September.

In July, Qatar became the second largest producer of Helium, as the Helium-2 plant started production. This launch is in sync with the country's plan to secure new and diversified revenue flows beyond oil and gas and will boost both the fiscal and current account surpluses.

For the periods ahead, the Helium production will ease the forecasted shrinking of the current account surplus. The IMF estimates that the current account balance will likely drop from 32.398% of GDP in 2012 to 29.61% in 2013, especially as the moratorium on LNG production is likely to last until 2015. In fact, as exports dropped from $36.21B in Q1 2013 to $33.85B in Q2 2013, the current account surplus retracted by 20% quarter-on-quarter to reach $15.77B in Q2 2013. Recently, the trade surplus hasn't posted any significant variations but rather hovered close to the level of $9B from July to September.

As for the fiscal surplus, it shall remain robust, representing 9.7% of GDP in FY2013/2014 only for it to decline to 8.7% of GDP in FY2014/2015. It goes without saying that the government will engage on a hefty spending spree for hosting the 2022 World Cup while revenues are likely to grow at a mild pace given: lower hydrocarbon prices, rising domestic energy consumption and the moratorium on LNG until 2015.

Qatar's future government projects are definitely going to boost lending activity in the future. However, in September total loans slid by 0.01% m-o-m while deposits increased by 3.2%, pulling the loan-to-deposits ratio down to 106% compared to 109% in August. Deposits were boosted by the 10.7% m-o-m growth in public sector deposits and the 1.2% m-o-m uptick in private sector deposits.

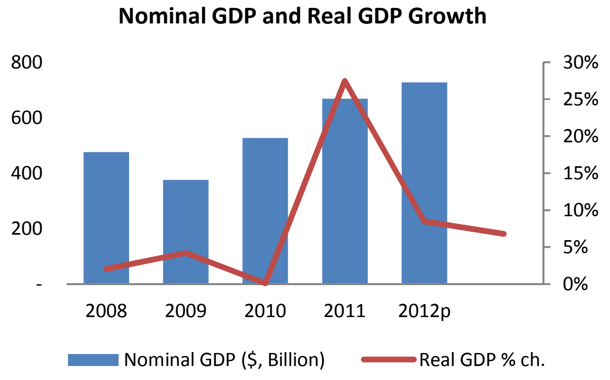
Foreign lending remains a marginal portion of total banks' assets and this shall remain the case. In fact, before December, banks must comply with new Central Bank regulations, under which foreign securities investments must be limited to 15%. Overall, total investment in equities and debt instruments is set to be scaled down from 30% of the banks' capital and reserve to 25%. Through this new introduction the Qatari Central Bank is aiming at focusing all lending activity on local governmental plans, in the hopes of avoiding any delays and in creating the best backdrop possible for the pipeline of infrastructure projects.

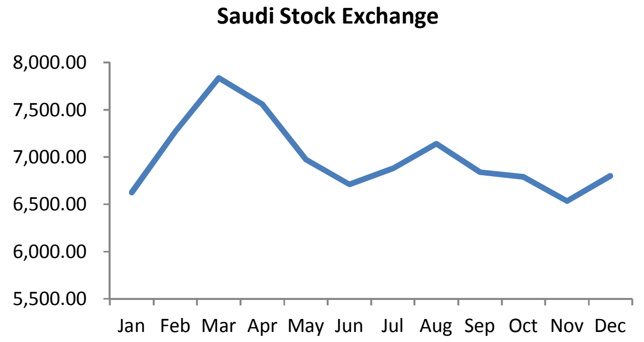
The Doha Stock Market Index (DSMI) ended the month of September at 9,608.32 points, 1% below July's close. The volume and value of traded shares increased from 122,087,196 and $1.47B in July to 165,683,747 and $6.93B in September. The transportation and goods & consumer services sectors were the top performers of the quarter while industrials and insurance were the worst performers.

Saudi Arabia Macro and Equity Market

The Challenges of Reform and Adaptability

Key Macroeconomic and Equity Market Indicators





As the events of the Arab Spring continue to unfold, Saudi Arabia's foreign policy grows more assertive. The kingdom is still assuming a proactive role in Syria supporting the opposition on all fronts. It is standing even more firmly by the side of the new government in Egypt. After the military government violently cracked down on Morsi supporters, Saudi officials went as far as pledging financial support in the case of cuts in Western aid. Concurrently, in July, the Kingdom promised $5B in aid to Egypt divided as follows: $2B in the form of petroleum and gas oil products, $2B as deposits at Egypt's central bank and a $1B grant.

Saudi Arabia is also holding tight to its domestic objectives, more particularly its labor market strategies. In August, the Ministry of Labor declared that 341,000 Small and Medium Enterprises (SME), or 35% of the total have 0 Saudi nationals on their payroll. Although this figure is a significant improvement from the rate of 53% in March 2013, Saudi authorities are aiming for more. Authorities warned illegal workers of potential punitive measures once the amnesty period ends on November 3rd. Nevertheless, these labor policies have been quite controversial as some businesses argued that the imposed levy on each foreign worker has reduced their profit margins. In an answer to these claims, contracting companies are now allowed to incorporate that extra fee in any of their public-private ventures. Indirectly, the government would be taking it upon itself to settle the levy and would be forced to re-evaluate all the previously signed contracts.

However, these new labor initiatives have been partially priced into inflation, that reached a peak of 4% in April, before gradually easing given toned down prices in the areas of: transport, Hotels and Restaurants, and Goods & Services. Moreover, the seasonal upward pressure exercised by the holy month of Ramadan on the prices of food and beverage started to fade. During Q3 2013, inflation stood at 3.4%, fueled by three major contributors: Food and Beverage, Housing and related services (Electricity, Water, Gas, and Fuel), and Household furniture and equipment. The weight in overall inflation of "Food and Beverages", "Housing and Related Services" leaped from 23.7% and 9.6% in Q3 2012 to 35% and 24.9% in Q3 2013. As for Q4 2013, inflation is expected to drop below 3% as Food and Beverage prices ease further in sync with falling food prices globally.

Amidst rising tensions in the MENA region and substantial supply disruptions, mainly in Libya, Saudi Arabia stepped in to compensate for the oil shortfall. In fact, crude oil production surpassed the 9.6 million barrels/day mark to reach 10.03 mbpd in July and 10.19 in August. Accordingly, crude oil exports rose from 7.47 mbpd in July to 7.80 mbpd in August. On the other side of the spectrum, non-oil exports dropped from $4.41B in July to $3.75B in August as did imports, falling from $13.47B in July to $10.88B in August. The top 5 export destinations were China, Singapore, UAE, India and Turkey while the top 5 import destinations were China, USA, Germany, South Korea and Japan.

Fiscally, while the expansionary stance and the budgetary surplus are still robust and the budget remains in efforts to increase the organization and efficiency of government projects has been at the forefront of the government's agenda. In September, the royal court issued decrees which prevent certain companies from bidding for government projects. These decrees came about as some governmental parties seek exemption from the standardized terms and regulations for the bidding process. The Kingdom's government is therefore trying to exclude any potential formation of monopolies on the market, which would increase the bidding costs and allow price manipulation. However, government institutions have over $26B in late payments due to contractors or about 30% of the volume of total government projects. Interestingly, according to Saudi law contractors are not allowed to halt the projects despite the late payments which can continue to be stalled from 3 months up to a year.

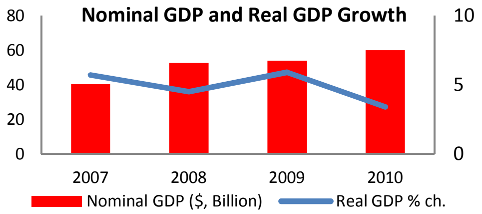
SAMA's (Central Bank) reserve assets remain abundant and totaled $688.43B in September. Cash withdrawals from ATMs and Points of Sale transactions posted a monthly decrease in August, due to the seasonal effect wearing off, they rebounded in September to respectively reach $13.81B and $3.08B. Moreover, claims on the private sector stood at $294.88B in September, increasing by 1.23% compared to July. Meanwhile, bank claims on the public sector, amounted to $70.63B, remaining substantial despite the 0.67% slip compared to July's level.

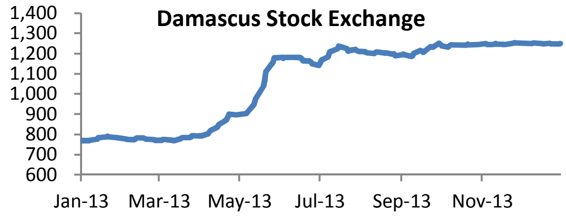
The Tadawul Stock Exchange Index (TASI) ended the month of September at 7,964.91 points, 0.63% above July's close. The volume and value of traded shares rose from 4.08 billion shares, worth $28.38B in July to 4.57 Billion shares, worth $30.51B in September. The worst performing sectors were Real Estate Development, Media & Publishers, and Insurance. The top performing sectors were Hotel and Tourism, Retail, and Multi Investments.

Syria Macro and Equity Market

Minimum Standards Economy until Further Notice

Macroeconomic and Equity Market Indicators





As the military score sheets between the Syrian regime and the opposition clamor with human and economic losses, setting the date for the peace conference Genève 2 on January 22nd, and the conclusion of the first nuclear deal between the United States and Iran, Syria's regional ally, reinstalled room for a political settlement. In fact, no matter the chosen solution to end of the conflict, reaching an agreement might not restore peace, but it will allow for the inflow of foreign and humanitarian aid to stop the human and economic drain.

Meanwhile, the current situation preserves the rule of two economies of war. Death toll rose to more than 100,000 people, 2 million citizens are on the refugees' status, and 4 million are internally displaced. In fact, Syrian refugees will soon become the largest contemporary refugee population in the world. Health services deteriorated with multiple diseases re-surfacing such as polio.

Several international NGOs documented the atrocities against civilians, and increased media over the kidnappings and the targeting of religious sites is mounting pressure against the funders of rebels and pushing towards a political settlement. The case for chemical weapons is almost closed with the Organization for prohibition of chemical weapons confirming the destruction of all unarmed ammunition as well as parts of the construction sites, the last being near Homs.

GDP losses continue to surge. A recent study by 2 UN agencies from the Syrian Center for Policy Research, estimated real GDP contracted by 36.7% during the first half of 2013, on an annualized basis, following a 27.7% contraction in 2012. The Economist Intelligence Unit estimated 2013's contraction at 18% and forecasts a recovery of 4.2% in 2014 on the back of a political solution. Last official figures put inflation at 57% in March, led by a 40% in food related groups, namely bread and sugar prices, and 25% in house related expenditures such as gas and electricity. Measures such as mobile supermarkets increased the reach for consumers in government pro-areas, and rationalization of electricity in favor of ministries, educational institutions and households are launched for the winter. Phenomena such as hawkers and street vendors are still being tolerated by the government.

Two third of Syria's plants is damaged by conflict. The war situation dictated a new focus on medium and small productions in safe areas to substitute for losses and provide first necessities. For example, Tartous and the coastal area are attracting new alternatives for plants and education. According to Syrian ministry of industry, the number of new industrial projects/crafts during the first nine months was 460, creating 3,486 job opportunities, most of them in food and beverages, architecture, chemical and textile. The industrial sector lost about 20,000 employees since the uprising, and currently employs around 63,000 people only according to the minister's declarations.

Crude oil production during the first nine months of 2013 averaged 31,549 barrels/day compared with 163,636barrels/day during the same period of 2012. Before the uprising, production was 385,000 barrels/day. Imports totaled 13.4million barrels for a total cost of $1.73billion against minimal exports. Oil fields are increasingly being controlled by rebels especially those nearing the borders east and northeast of Syria.

Natural gas production which augmented in the last 2 years before the uprisings declined at a much slower pace as gas fields are concentrated in government controlled areas. For the first nine months of 2013, it was 6billion cu meters compared with 8.4billion cu for the whole year of 2011. Both the regime and rebel forces avoided targeting natural gas and electricity facilities. About 90 percent of local oil and gas production – amounting to 35 percent of total export earnings and to about one-fifth of government revenue – was sold to Europe, but sanctions have barred this source of income.

Syria's foreign trade fell sharply. Government's rationalization of imports to preserve the hard currency and avoid speculation persisted through the pre-licensing to trade. Trade deficit is estimated to have narrowed to $6.2 billion by Economist Intelligence Unit on the back of lower imports and exports to $8.9 billion and $2.7 billion by EIU. According to Syrian official statements, around 60% of imports are from china, India, Russia, Sri Lanka, Ukraine, Malaysia and Greece.

On the fiscal level, the government took a reality check in 2014 budget, accounting for revenue drop and loan defaults. Spending was cut by 15% to 20% which curbed deficit.. The government also took measurements to enforce collection of taxes in controlled areas mostly seeking big income to sustain its budget. Oil price was increased to $0.74/ liter.

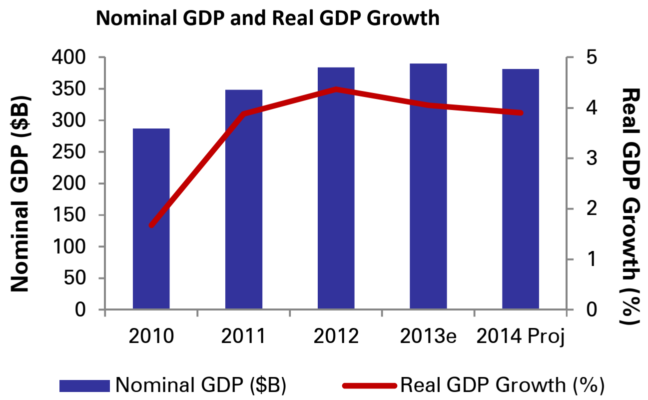
On the monetary level, the Central Bank of Syria continued to provide licensed banks with foreign currency to fund their commercial transactions. During the last intervention session in late November, the Syrian pound was quoted at around SYP 150/USD. Only licensed exchange offices now operate after the foreclosure and jailing of unlicensed dealers in an attempt to control black market and speculation. The improvement of the exchange rate reflected well on food prices and basic materials. The foreign reserves remain secret until further notice.

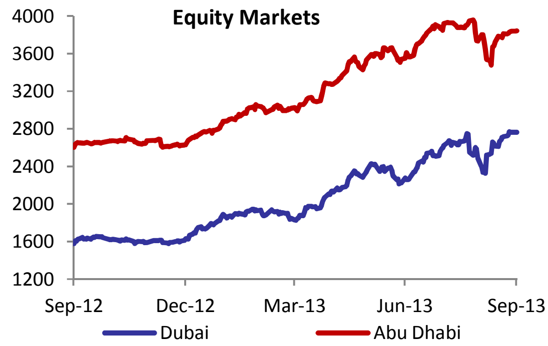
Since June end and till November, Damascus index picked up 9.66%. The equity markets saw the trading of 6,153,675 shares worth $7,646,730 during this period almost the same as in the first half, and Market cap ended November at $804,853,919. While banks are doing well, insurance, services and industry are fluctuating in their performances. For the first nine months of 2013, the 12 listed banks reported a 39.5% increase in their assets while the 6 insurance companies lost 15%. Same goes for the 2 services companies and the only industrial company which lost 7.21% and 10.84% respectively. As for reported income, listed banks' income went up from SYP 2.2billion in the first nine months of 2012 to SYP 30billion. The listed insurance companies also reported an increase in income from SYP 347 million to SYP 690million, although their revenues declined over the same period. Moreover, some listed companies have been reporting robberies and attacks. Also few stocks saw the triggering of trading rules due the drop of their market value compared to their nominal value.

UAE Macro and Equity Market

A Robust Economy in a Turbulent Middle East

Key Macroeconomic and Equity Market Indicators





Unrest in the Middle East couldn't hinder the United Arab Emirates (UAE) from achieving their ambitious goals to recover from 2009 crisis. The economy rallied better than expected boosted by several projects revealing the Emirates intention to diversify revenues away from oil. In this context, Dubai World Central (DWC), the world's first integrated logistics platform was inaugurated supporting several activities including commercial and residential businesses. The project also embraces a new airport that opened recently to passengers standing as a large milestone in Dubai's aviation industry.

On the economic front, the Emirati non-oil sector continued to gather momentum with the IMF estimating non-oil growth at 4.3% by the end of 2013 on booming tourism and improving real estate sector. Steady performance marked the UAE this year as it was ranked 23rd of 189 states for ease of doing business and 19th out of 144 states in the World Economic Forum Global Competitiveness Report. Inflation in Dubai stood at 1.26% in September compared to the same period last year. This was mainly due to the increasing property prices and rental values following the recovery of the real estate sector. As for Abu Dhabi, inflation recorded a yearly 1.8% compared to September 2012 on higher food and beverages prices.

Tourism in the UAE kept on hiking backed by the safe haven status of the Emirates within a chaotic Middle East. Accordingly, tourism industry was prosperous by the end of September this year as the number of passengers at Dubai International Airport added a yearly 5.9% to hit 49.38M. Hotel occupancy rate was also a strong indicator of the healthy progress of the tourism sector as Ernst & Young latest report showed high occupancy rates at 79% in Dubai and 75% in Abu Dhabi by September this year. Tourism Authorities in Dubai initiated incentives to encourage mid-range hotels (3- and 4-star) development in the Emirate. The step aims at increasing hotel rooms' number in Dubai and widening of visitors' options, in order to achieve the "Tourism Vision for 2020 plan".

The banking sector remained sound with M3 surging 10.5% on a year-to-date basis to $323.24B up to August 2013, according to the Central Bank of the UAE. Total deposits edged 7.5% up to reach $339.00B in June, outpacing total lending that grew at a slower pace adding a yearly 4.1% to stand at $288.36B. The loan to deposit ratio fell from 87.9% by H1 2012 to 85.1% this year revealing an increasing the liquidity and improving the capacity of banks to meet their financial obligations.

The approved UAE federal budget of 2014 will comprise higher spending on social benefits, especially education investments (around 21% of 2014 budget). The framework for 2014-2016 will allocate $37.8B for total expenditures compared to 2011-2013 spending of $35.91B. General government revenues (excluding grants) were estimated by the IMF at $132.21B by the end of 2013, while total expenditure projections will reach $80.97B.

Within the diversification strategy away from oil dependency, UAE's non-oil foreign trade increased 16% y-o-y in the first half of 2013 to reach $183.33B compared to the 9% growth rate recorded in H1 2012. Dubai non-oil exports and re-exports rose by 15.7% up to June 2013 to reach $73.44B compared to $63.45B recorded a year earlier. As for imports, they witnessed a 16% yearly progress to $94.23B. On a positive note, the Emirates succeeded to become an international trading hub ranking fourth in the "Trading across Borders" category of the International Finance Corporation "Doing Business 2014" yearly report.

Dubai Financial Market's index continued its upward trend during the 3rd quarter of 2013, surging 75.0% from Q3 2012 to close at 2,762.5 points. The average daily volume traded jumped to 640.60M shares worth $203.97M, up from 108.33M worth $34.89M in Q3 2012. The number of transactions reached 397,645 in Q3 2013 compared to 105,633 registered last year. As for market capitalization, it widened by an annualized 70.0% to $55.79B by the end of the 3rd quarter of 2013. With respect to Abu Dhabi's equity index, it jumped 47.5% y-o-y to 3,842.98 points by the end of September 2013. The average daily volume traded reached 181.85M shares worth $90.90M in Q3 2013 compared to 48.23M shares valued at $19.35M recorded a year earlier. The market capitalization widened by 44.42% y-o-y to $98.57B, with the number of transactions up from 49,950 in Q3 2012 to 144,940 this year.

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