BLOMINVEST BANK S.A.L

May 10, 2016

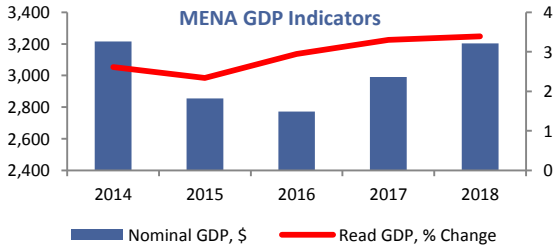
MENA Review and Quarterly Outlook

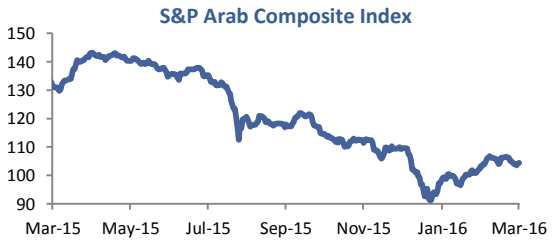
BLOMINVEST Views on Regional Economic and Financial Developments for Q1 2016

View of the Quarter

Weak oil prices and political climate continued to dictate economic performance in the MENA region during the first quarter of 2016. Despite the slight year-to-date uptick in oil prices, oil exporting countries kept on suffering from persisting current and fiscal deficits. When it comes to Saudi Arabia, the kingdom's rivalry with Iran had many ramifications on the foreign policy front. Meanwhile, on the economic front inflation soared after the cut back in subsidies and banks are pitching in to finance the fiscal deficit by increasing their holdings of government bonds. In the United Arab Emirates (UAE), the country's diversified economic structure managed to weather the tightening fiscal revenues and attract foreign investments mainly in the real estate and tourism sectors. The low oil price environment was deeply felt by Qatar over the quarter as trade activity witnessed a steeper slump. However, the Emirate continued its real estate and infrastructure projects to welcome the upcoming FIFA event in 2022. Stepping towards oil-importing countries, Jordan's economy demonstrated the effects of low global growth in the monetary, fiscal and external sectors. Often considered one of the pillars of its economy, the Kingdom's tourism sector also failed to kick-start the year on a positive note as a result of discouraging regional concerns and security fears. Regardless of the geopolitical disturbances that Lebanon experienced during the first quarter of 2016, most sectors improved from the low levels recorded in previous years however its balance of payments remained in the red. Egypt continued with the series of economic reforms that were initiated by mid- 2014 but at a slow pace, despite the shaky security situation. It also devaluated its currency in order to restore its fading foreign reserves and give more confidence to the markets in addition to improving its exports' competitiveness. In Syria, government forces took back the historical city of Palmyra while the Geneva talks brokered a cease fire in late February which excludes attacks against ISIS and the Nusra Front.

HEADLINES





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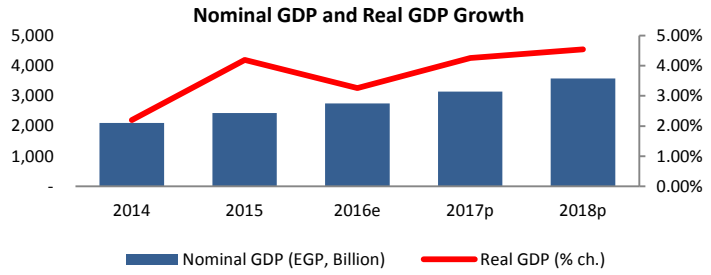
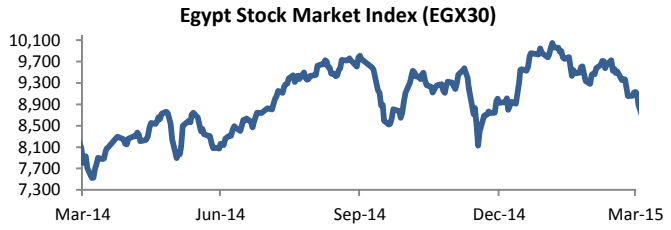
Egypt Macro and Equity Market

Relieving Foreign Reserves' Shortage through Currency Devaluation Catches the Spotlight in Q1 2016

Key Macroeconomic and Equity Market Indicator





Egypt inaugurated 2016 with a bunch of new economic decisions and international deals topped by the Central Bank of Egypt's (CBE) new monetary measures. As a matter of fact, the lack of net foreign reserves has been a continuing problem hindering Egypt from reaching its full potential in terms of attracting investors and generating new business opportunities. Despite the positive outcome of the CBE's new monetary policy, the recent devaluation of the pound remained insufficient in boosting international reserves and eliminating the black market. The limitations resulting from the country's capital control regulations are still weighing on investment and hence economic growth. The need to fully liberalize the market remains crucial in order to bolster investors' confidence and attract capital inflows.

Even though official data revealed an improving economic growth in the Fiscal Year (FY) 2014/15, the International Monetary Fund (IMF) forecasted real GDP growth to slow down in FY 2015/16 to 3.3%, down from a 4.2% in the previous FY. During the first three quarters of FY 2015/16, the Purchasing Managers' Index (PMI) revealed a contraction in the country's non-oil manufacturing sector. Egypt's PMI averaged below the 50 neutral-mark between July 2015 and March 2016 at 48.0 points, compared to the 50.2 reading registered during the same period a year earlier. Despite the authorities continuous efforts to contain inflation levels, the recent decisions to devalue the Egyptian Pound may have been behind the rising prices during the 3rd quarter of FY 2015/16. In fact, the main reasons behind inflation remaining at a single-digit level can be associated to the global weakening of commodity prices, the ongoing depreciation of the Euro and the bearish trend of oil prices since mid-June 2014. Inflation during July 2015 – March 2016 averaged 6.9% compared to 8.2% a year earlier, while average inflation rates during the first, second and third quarters of the year were 5.9%, 7.0% and 7.9%, respectively.

Egypt witnessed a deteriorating external position during the first half of FY2015/16. This resulted from a worsening current account, which more than offset the substantial surplus of the capital and financial account. In details, the balance of payments in Egypt recorded a $3.41B deficit between July and December 2015 compared to $1.02B a year earlier. As for the current account, the deficit more than doubled over the period reaching $8.92B, up from a deficit of $4.31B registered in H1 FY 2014/15. In fact, the 47.4% yearly drop in global oil prices in H1 FY 2015/16 barely eased Egypt's external bill as revealed by the trade deficit that narrowed by 4.6% y-o-y to $19.46B. The country's exports fell 26% y-o-y, while imported goods saw a 12.6% yearly fall in value.

The suspension of British and Russian flights following the Russian aircraft crash in October 2015 triggered down tourism activity, with its repercussions extending till the end of the first half of FY2015/16. In details, the sector generated $2.71B in receipts over the period, down from $4.01B in H1 FY2014/15. This was also translated in lower tourists' number that tumbled 17% y-o-y to 4.54M between July and December 2015.

On the fiscal front, and regardless of the substantially increasing government revenues, the rising fiscal expenditures widened the fiscal deficit of the country. In details, fiscal inflows rose from $8.60B in Q1 FY 2014/15 to $12.86B in Q1 FY 2015/16. As for the government's expenses, they witnessed a 34.6% yearly uptick over the same period to $21.36B. Hence, fiscal deficit broadened from $7.41B (or 9.1% of GDP) in Q1 FY2014/15 to $8.51B (or 10.8% of GDP) in the same period of FY2015/16. The national net domestic debt also went higher from a previous $181.84B by September 2014 to $239.86B by September 2015.

Aiming at easing the shortage in Foreign Currencies (FC) and restore investors' confidence in the Egyptian market, the CBE adopted a more flexible exchange rate regime, devaluated the Egyptian pound and lifted the monthly cap on dollar deposits and withdrawals for individuals, and companies importing basic goods and products. As a result, the exchange rate reached EGP 8.95/USD on the 14th of March, up from a level of EGP 7.83/USD by 2015. In fact, net international reserves stood at $16.56B by March 2016, up from the $16.45B recorded by the end of 2015 and the $15.29B in March 2015. In addition, the Monetary Policy Committee (MPC) rose on the 17th of March each of the overnight deposit rate, overnight lending rate, the rate of the CBE's main operation by 150 bps to 10.75%, 11.75%, and 11.25%, respectively. The discount rate was also increased by 150 bps to 11.25%. Also, the CBE limited the tenure of executive officials in the Egyptian banks to 9 years in order to modernize the sector.

In the banking sector, credit facilities rose 23.4% y-o-y in January 2016 to reach $89.82B, noting that 70% were disbursed in local currency. Total deposits also went up from $179.45B in January 2015 to $216.60B by the end of January 2016. Over the same period, local currency deposits, constituting 80.8% of the commercial banks' total deposits, increased by 24.2% y-o-y to $175.08B compared to a slower 9.0% increase in FC deposits to $41.52B.

Regarding the Egyptian equity market, investors started the first quarter of 2016 with improving confidence following the decision to lift the monthly cap on dollar transactions for individuals on the 8th of March. The currency devaluation was another reason behind the increasing Egyptian stock index (EGX 30). In this context, the EGX30 added 7.4% from Q4 2015 to close at 7,524.99 points by March 2016. However, the market capitalization narrowed by 5.2% over the same period to $45.86B. This was mostly associated to the delisting of Orascom Construction Industries (OCI), noting that company's shares had the heaviest weight of 26% in the EGX30. That said the volume and value of listed stocks progressed in Q1 2016 by respective levels of 5.4% and 29.7% y-o-y to 17.18B shares and $6.89B. Similarly, the number of transactions posted a 3.7% annual uptick in Q1 2016 to 1.57M.

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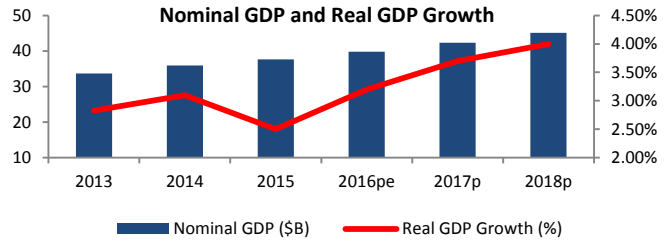
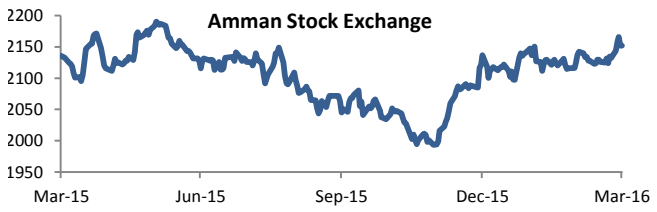
Jordan Macro and Equity Market

Problematic Start to 2016 May Indicate a Tough Year Ahead

Key Macroeconomic and Equity Market Indicators





Perhaps one of the few positives witnessed in Jordan recently has been the lower number of Syrian refugees, with official numbers as of April 2016 placing the figure at around 640,000, compared to above 800,000 towards the end of 2014. An increased number of refugees have been granted asylum in Europe, with Germany, Turkey, Egypt, Hungary and other European nations accepting increasing numbers in the past year. However, the funding issue still remains a major concern, with only $80.73M of the required $1.11B received by March 22nd. In reaction to the crisis being encountered, Jordan demanded the implementation of a new strategy targeting economic development at the "Supporting Syria and the Region" conference in London at end-January, alongside the necessary humanitarian relief for the refugees. The Hashemite Kingdom displayed weaker performances across all its major economic sectors, with general and fiscal deficits expanding, and the drop in tourism activity continuing in 2016.

On the economic front, the International Monetary Fund (IMF) released its World Economic Outlook (WEO) April 2016 edition, in which it revised earlier growth expectations downwards for the majority of the world's economies, citing lower oil prices, cheaper commodities and geopolitical tensions as key drivers behind lower growth expectations in the Middle East in particular. The Hashemite Kingdom was no exception to this rule, as expected growth rates for GDP were revised down from 2.85%, 3.75% and 4.50% for the years 2015 till 2017 to lower expectations of 2.50%, 3.20% and 3.70%, respectively. Also, the Consumer Price Index revealed a 0.7% drop during January 2016 compared to January 2015.

Jordan's tourism sector ended 2015 on a sour note, as the total number of tourists displayed a 9.71% y-o-y drop to 4.81M tourists. Saudi Arabians represented the biggest group of tourists, but their numbers declined by 16.8% to 883,884 tourists. The largest non-Arab group represents tourists were from the United States, whose number almost remained constant, gaining 0.15% y-o-y to 161,013 tourists during 2015. Moreover, preliminary indicators of the performance of the tourism sector for 2016 may be signaling that performance will not pick up any time soon. The Central Bank of Jordan (CBJ) reported a decrease in travel receipts by 6.40% to $333.47M (JOD 236.5M), while the Ernst & Young Middle East hotel benchmark survey indicated that the first quarter of 2016 performed even worse than that of 2015, as the occupancy rate declined by 5 basis points (bps) to 48% while the Average Room Rate and the Rooms Yield each declined by 1.90% and 10.71% to respective values of $155 and $75.

On the external front, Jordan's trade deficit began the year with a 36.99% y-o-y expansion during January to $1.09B (JOD 773.54M). The Kingdom's imports gained 13.70% in value to $1.60B (JOD 1.14B), while exports and re-exports dropped by 15.02% and 23.00% to respective values of $420.15M (JOD 297.55M) and $91.53M (JOD 64.82M). The rise in the value of imports was most clearly evident in natural gas, electrical machinery and vehicles. These three import commodities increased by 170.39%, 77.25%, and 27.76% annually to new values of $70.19M (JOD 49.71M), $11.38M (JOD 78.88M) and $150.62M (JOD 106.67M), respectively. The significant rise in natural gas imports can be traced back to the two contracts awarded to liquefied natural gas (LNG) suppliers Gunvor in Switzerland and Gas Natural in Spain. These companies began supplying Jordan's electricity company NEPCO with natural gas during the quarter, and probably resulted from NEPCO's decision to rely more on LNG for power generation instead of fuel and diesel. Meanwhile, key export commodities that displayed declines in value compared to January of last year were mineral and chemical fertilizers, which dropped by 34.62% y-o-y to $22.27M (JOD 15.77M), potassium crude, losing 32.59% annually to a new value of $26.98M (JOD 19.11M), and phosphates, whose export value dropped by 20.21% compared to January 2015 to $28.54M (JOD 20.22M).

Jordan's fiscal sector also displayed signs of struggling to cope with macro-economic strains, as the general budget deficit, inclusive of foreign grants, stood at $1.31B (JOD 928.60M) by December 2015. This equaled a 59.14% y-o-y widening of 2014's deficit, as the 6.49% annual drop in public revenues to $9.58B (JOD 6.80B) outpaced the 1.61% drop in public expenditures to $10.89B (JOD 7.72B) over the same period. Net outstanding public debt also rose by 11.15% over the year to $32.21 (JOD 22.85B), equivalent to 85.8% of the Kingdom's GDP. This debt can be broken to net outstanding domestic debt, which stood at $18.97B (JOD 13.45B), or 50.5% of GDP, and outstanding external public debt equal to $13.24B (JOD 9.39B), standing at 35.3% of GDP.

On the monetary front, Jordan witnessed a slowdown in money supply (M2) during the first 2 months of 2016, as it registered a slower 0.50% y-t-d growth by February compared to 0.90% over the same period last year, as net foreign assets shed 3.50% y-t-d to $11.06B (JOD 7.84B). As of February 2016, total credit facilities had registered a 0.92% gain from December 2015 to reach $30.03B (JOD 21.30B). Meanwhile, total deposits gained 0.60% to reach $46.26B (JOD 32.86B), translating into a 64.92% loan to deposit ratio by February 2016, up from 64.74% at end-2015.

Over the first quarter of 2016, the Amman Stock Exchange (ASE) gained 0.73%, closing the trading session on March 31st 2016 at 2,151.89 points. However, the index's market cap dropped 3.06% from end-2015 to end Q1 2016 at $24.58B (JOD 17.43B), following the delisting of 3 securities. Also, the index's Price to Earnings ratio (P/E) increased from 13.11 at end-2015 to 16.167 by end-March 2016. Over the first three months, the total value of traded shares registered $590.41M (JOD 418.73M), compared to a higher $654.49M (JOD 464.18M) during Q1 2015.

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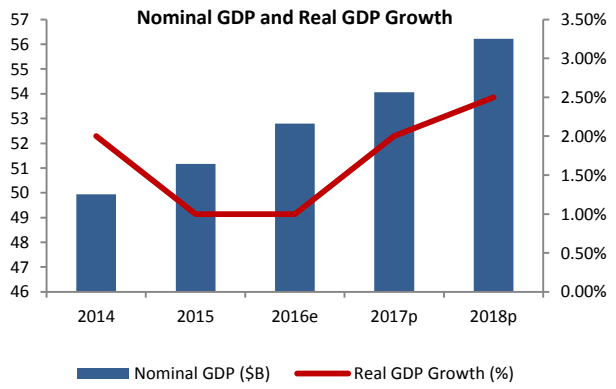
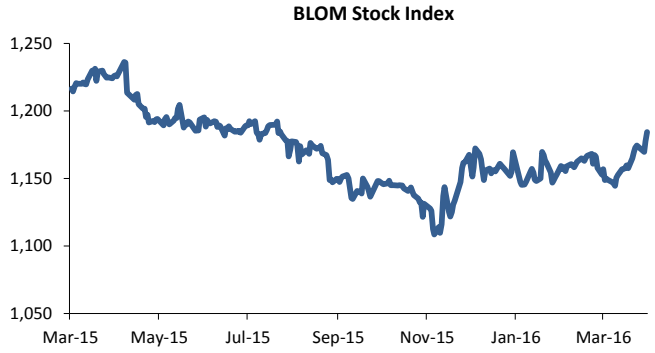
Lebanon Macro and Equity Market

Recuperated from Last Year's Lows

Key Macroeconomic and Equity Market Indicators





Amid a continuing political stalemate, with around 21-month of political vacuum, most of Lebanon's economic indicators recuperated from the low levels reached in the previous years. However, the geopolitical dynamics were not as smooth, as GCC countries (Bahrain, Kuwait, Qatar, and Saudi Arabia) warned their citizens from travelling to Lebanon. This occurred after Saudi Arabia halted $4B in aid to the Lebanese Armed Forces in response to diplomatic differences with the Lebanese government.

Due to the shaky political environment, the International Monetary Fund estimated Lebanon's Real Gross Domestic Product for 2016 to grow at the same pace of 2015. The BLOM Purchasing Managers' Index remained below the 50 mark, at an average of 47.2 points in the first quarter (Q1) of 2016, marginally lower than the 47.3 points registered in the previous quarter.

Looking at consumer prices, they maintained their downward trend on the back of the persisting decline in oil prices, depreciating euro, and the global and local slowdown. Hence, the CPI decreased by 2.94% y-o-y to 94.25 points, in February 2016. "Food and non-alcoholic beverages" (20.6% of CPI), "transportation" (13.1% of CPI) and "water, electricity, gas & other fuels" (11.9% of CPI), witnessed yearly drops of 2.05%, 4.83% and 16.54%, respectively.

Looking at the real-estate sector, total transactions (local and foreign) increased 14.5% annually to 19,640 worth $2.08B by Q1 2016. In details, land transactions posted a 19.37% y-o-y growth to 10,384 transactions, while build units increased by 9.55% to 9,256 transactions by Q1 2016. Average value of land transactions went up from $102,399 in Q1 2015 to $106,147 in Q1 2016. However, foreigners' share of the total number of real estate transactions went down from 2.08% in Q1 2015 to 1.52% in Q1 2016.

Similarly, construction improved after 4 years of frail activity. The number of permits reached 4,067 by February 2016, compared to 1,996 in the same period of 2015. Noting that permits are usually issued at least 6 months after applications are filed, the growth in construction activity could be partly attributed to contractors' optimism regarding the upcoming year, and the improved security situation in the North.

As for tourism, the number of incomers increased by 9% yearly to 191,808 by February 2016. Accordingly, hotel occupancy improved, with the average rate adding 2 percentage points to 55% by February. Nonetheless average room rate and average room yield lost 16.7% and 14.3% to $142 and $79, respectively, which could be the result of the type of tourists in light of the warnings issued by GCC countries and/or following the trend in the region. However, Global Blue's Tourist Spending Report revealed that tourist spending in Lebanon declined 12% y-o-y in Q1 2016.

Lebanon's Balance of Payments revealed a deficit of $356.3M in the first two months of 2016, compared to a higher deficit of $432.8M in the same period last year. In spite of the relative improvement, the overall weakening in European and GCCs economies might be still weighing on the remittances and Foreign Direct Investments (FDIs) to Lebanon. In contrast, trade deficit widened from $2.17B by February 2015 to $2.46B by February 2016. Total imports grew 7.93%, while exports plunged 14.89% y-o-y in the first 2 months of 2016.

Fiscal deficit broadened 28.62% yearly to $3.95B in 2015. Therefore primary surplus declined to $724M compared to a higher primary surplus of $1.34B, end of 2014. This was mainly driven by the 11.98% decline in total revenues exceeding the 3.04% drop in total expenditures. The drop in revenues resulted from the 4.34% decrease in VAT revenues, while the 45.81% plunge in EDL transfers was the main reasons behind the decline in expenditures. The deficit led Gross public debt (GPD) to stand at $70.31B end of 2015, and reach $71.21B end of February 2016.

On the monetary front, BDL's total assets grew 4.04% y-t-d to $94.58B end of Q1 2016. Gold reserves grew 15.56% to $11.38B, while foreign assets ticked down 1.35% to $36.59B by March 2016. The growth in gold reserves resulted from the 16.12% increase in gold prices in the first 3 months of 2016. As for total assets at commercial banks, they grew by 0.32% y-t-d to $186.59B by January 2016.

On the Beirut Stock Exchange, investors started the year with optimism, as shown by the BLOM Stock Index (BSI) that added 1.28% q-o-q, to 1,184.49 points end of March. Trade volume surged from 231,158 shares worth $2.12M, in Q4 2015 to 30,998,231 shares worth $278.51M in Q1 2015. As for market capitalization, it broadened by $60.55M since year-start, to $9.79B end of Q1 2016.

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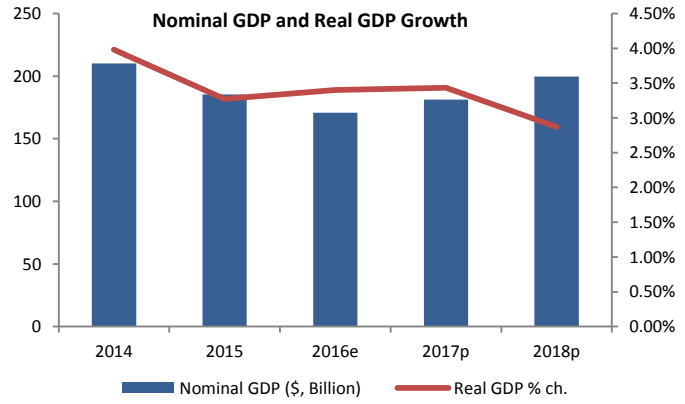
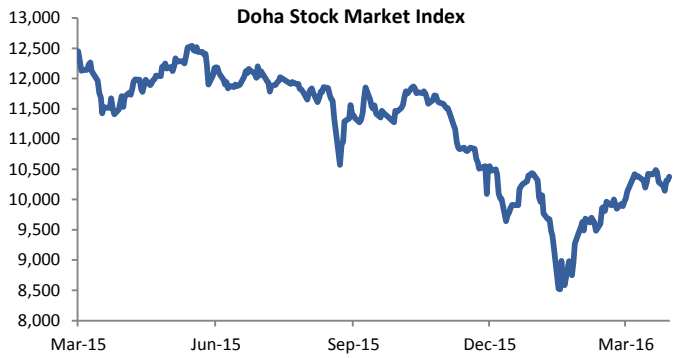
Qatar Macro and Equity Market

Low Oil Prices Abated Economy's Growth

Key Macroeconomic and Equity Market Indicator





To boost its private sector and ease the pressure on the fiscal balance caused by low oil prices, Qatar targets to implement a public-private partnership (PPP) law, by the end of 2016. Qatar has previously used PPP in the utility and oil and gas sectors in 2015, but the new law would make PPP easier to operate and expand their use into other sectors.

Despite a considerable reduction in oil and gas revenues, Qatar is still posting a positive growth rate, due to continued spending on infrastructure and tourism projects. Qatar's real GDP growth for the fourth quarter (Q4) of 2015, reached 4% year-on-year (y-o-y), driven by the expansion of the non-hydrocarbon sector. The Real Gross Value Added (GVA) of the non-mining and quarrying sector, with a 51.28% share of GDP, grew by 7.4%, pushed up by the developments in construction, social services, and financial services. Meanwhile, real GVA of the mining and quarrying sector, with a 48.72% share of GDP, showed a 0.7% yearly rise

Consumer prices remained on the rise, with yearly inflation standing at 3.3% in March 2016. The major sub-indices "Housing, water, electricity, & gas", "Recreation and culture", and "Transport" added 5.4%, 11.2%, and 1.5%, respectively.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices domestic producers receive for their output, plunged by 37.5% y-o-y in Q4 2015 to 52.7 points. The PPI was significantly affected by the prices of crude oil and natural gas during 2015. The price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) shed 44.4% and 46.9% y-o-y to $42.4/barrel and $39.5/barrel, respectively, end of December 2015. Therefore, the "Mining" group, which represents 72.7% of the PPI, fell by 41.7% compared to the same period of 2014. The PPI "Manufacturing" subcomponent also showed yearly decrease of 27.8%, while "Electricity and water" sub-index went down by 3% compared to Q4 2014.

Qatar's trade balance narrowed 56.06% y-o-y to a surplus of $3.94B in the first 2 months of 2016, as a result of decreasing exports and increasing imports. Declining oil prices drove down the largest component of total exports, hydrocarbons, by 40.73%, resulting in a 33.18% y-o-y plunge in exports to $9.42B by February 2016. On the other hand, imports increased by 6.87% y-o-y to $5.48B, where motor cars and other passenger vehicles were the top imported commodities, inching up slightly by 0.36%.

On the fiscal front, Qatar is projected to record the first fiscal deficit in 15 years, of $12.8B in 2016, with the expected oil price at an average of $48/barrel. Revenues are forecasted to reach $42.12B, while expenditures are expected to be $54.68B, provoking the government to issue local and international debt rather than drawing down its reserves. The government borrowed $5.5B 5Y loans from domestic and international banks in December, and is expected to issue sovereign sukuks. Despite this deficit, the government stated that it would maintain spending in key sectors such as infrastructure, transport, health and education, with $200B dedicated to physical infrastructure between now and 2022. Of the $200B spending, 10% would be devoted for the preparation of the 2022 World Cup, leaving the rest for infrastructure projects in transport, building urban areas, housing, health and education.

Looking at the monetary sector, total assets at commercial banks went up 1.91% since end of 2015 to $306.18B, end of Q1 2016. Private sector credit slightly grew 1.20% to $115.43B, while that of the public sector inched up 7.33% since year start to $69.05B by March. Total deposits broadened 1.73% to $178.61B, due to the 32.60% and 0.13% increase in non-resident private sector deposits and public sector deposits. Meanwhile, resident private sector deposits decreased 4.87% since year-start. Qatar's central bank is taking necessary monetary policy measures to increase liquidity in the banking system. For instance, the central bank has cancelled several monthly Treasury bill auctions, as banks bid at high yields. Moreover, the central bank has set new maximum limits on open positions that banks can hold in foreign currency, 25% of capital and reserves in dollar, and a 5% limit for all other foreign currencies.

The Doha Stock Market Index (DSMI) marginally ticked down by 0.51% q/q to 10,376.20 points end of March. Trade during the last quarter of 2015 occurred at a higher volume of 615.85M shares worth $5.59B during Q1 2016, compared to 326.02M shares worth $4.93B in the last quarter of 2015. Global Index Provider FTSE Russell confirmed that Qatar will be upgraded from the Frontier to Secondary Emerging market. The upgrade will be implemented over two equal tranches in September 2016 and March 2017.

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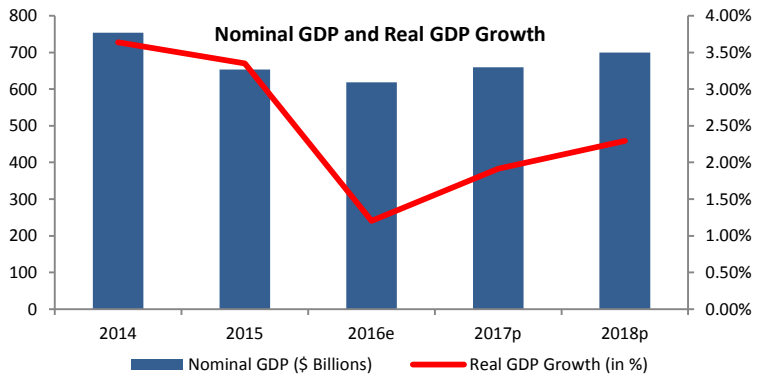
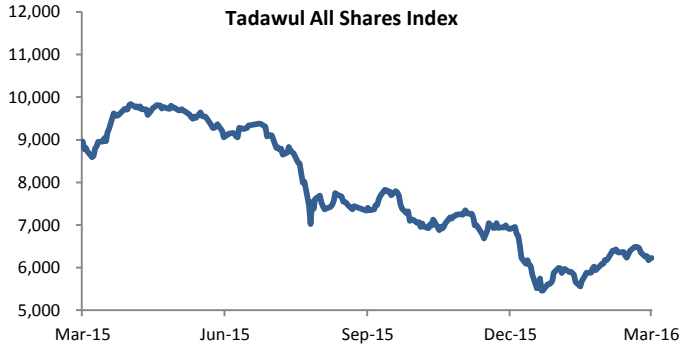
Saudi Arabia Macro and Equity Market

Amidst Complex Web of Middle Eastern Diplomacy and Low Oil Prices

Key Macroeconomic and Equity Market Indicators





At the onset of 2016, rivalry between the Sunni-kingdom of Saudi Arabia and the Shiite-Iran was heated. In January 2016, Saudi Arabia executed 47 people accused of terrorism, amongst them was Sheikh Nimr Al Nimr, a Shiite religious leader that took part in the anti-government protests in Saudi Arabia back in 2011. The execution sparked an attack on the Saudi embassy in Teheran and drove Saudi Arabia's allies, Sudan and Bahrain to cut diplomatic ties with Iran and the UAE to reduce its diplomatic presence in Tehran.

One month later, tensions between the Lebanese Hezbollah party and the Kingdom of Saudi Arabia culminated into a full-fledge diplomatic crisis. In February, Saudi Arabia halted a $3B aid it had pledged to the Lebanese Army and $1B destined to the Internal Security Forces. The Kingdom was then joined by fellow GCC country, Bahrain, in issuing travel warnings to Lebanon while the UAE issued a travel ban and reduced its diplomatic presence in Lebanon. Qatar and Kuwait soon issued their own travel warnings to Lebanon. At home and for the first time ever, Saudi Arabian women participated in local council elections, both as candidates and as voters.

On the economic front, Saudi Arabia's non-oil private sector witnessed a slower performance in the first quarter of 2016. The Emirates NBD Saudi Arabia PMI averaged 54.27 compared to a much-higher 58.8 in Q1 2015. In January, the PMI slumped to 53.9, a record low, on account of a subdued upturn in new work. The gauge later showed some progress by advancing to 54.4 in February and 54.5 in March as new orders, output and employment regained momentum. In spite of this downturn in the PMI it is important to note that the gauge is still above the 50- mark separating economic recession from economic expansion and that suggests the private sector remains rather solid overall.

In light of low oil prices, the cut back in subsidies for water, gas and electricity pushed consumption prices upwards. According to the Central Department of Statistics, inflation surged to more than a 3 year-high with rates of 4.3% in January and 4.2% in February. The price of 95 Octane gasoline was upped from 16 cents per liter to 24 cents per liter and the price of 91 Octane was raised from 12 cents per liter to 20 cents per liter. In February, the cost of transportation, water and housing related costs and, electricity, gas and other fuels surged by yearly rates of 12.6%, 139.2% and 12.3%.

It is too early to tell if the cut back in oil subsidies is having an impact on oil consumption. According to OPEC, local consumption stood at 2.07 mbpd in February, down by 7% year-on-year but that decrease cannot be immediately linked to the decrease in subsidies since it can be due to the fact that this time of year is a low-demand season.

Saudi Arabia still stands firmly by its stance of not reducing oil output. In the first quarter of the year (Q1 2016) the kingdom produced an average of 10.23 million barrels per day up by 4% from 9.87 mbpd in Q1 2015. The kingdom's crude oil exports also rose to their highest level since July 2015 and stood at 7.84 mbpd. In February, and according to OPEC's monthly report, Saudi Arabia was the second biggest oil supplier to the US with a share of 14%, the top supplier for Japan with a share of 32%, and the top supplier to China alongside Russia and Bahrain with a share of 17%.

The kingdom's non-oil exports fell by 22% year-on-year from $4.30B in January 2015 to $3.34B in January 2016. The top five export destinations were UAE, China, India, Bahrain and Turkey. As for total imports, they also fell from $13.82B in January 2015 to $12.9B in January 2016. The top five import destinations were the US, China, Germany, Japan and South Korea.

With an $87B budget deficit expected for 2016, Saudi Arabia is in need of all the revenues it can get. The Kingdom is considering the introduction of a 5% Value Added Tax. Standard and Poors' estimates that the biggest share of new debt issuance in the Gulf will come from Saudi Arabia which is expected to issue $31B in new debt in 2016 up from $27B last year. The banks' holdings of government bonds surged by 82% year-on-year from $14.45B in February 2015 to $26.30B in February 2016.

Foreign reserves are ample but cannot alone be used to plug the deficit since they are also tapped by the Central Bank to protect the riyal's peg to the dollar. The Central Bank reduced its investments in foreign securities by 27% from $538.69B in February 2015 to $393.91B and accordingly total foreign reserves fell by 17% year-on-year to $592.66B in February 2016. Given the riyal's peg to the dollar, interest rates were upped in the Kingdom in line with the Federal Reserve's first increase back in December. Stable since 2011 at 0.25, the reverse repo rate has been adjusted upwards to 0.5 starting December 2015. The Saudi Interbank Offered Rate has also consistently increased from 1.3329 in December to 1.6408 in January and to 1.7338 in February. Lending activity is still robust with bank claims on the private sector rising by 10% year-on-year and 2.41% year-to-date to $374.67B.

The impact of low oil prices was felt on the Saudi bourse with the Tadawul All Shares Index (TASI) ending Q1 2016 at 6,223.13 points, down by 29% year-on-year. Accordingly, the market capitalization dropped by 24% to reach $383.37B. The total value of traded shares amounted to $98.22 billion, down by 35.51% year-on-year. The total number of traded shares reached 20.62 billion shares compared to 22.21 billion shares traded during Q1 2015.

The top gainers were WAFA Insurance, Zain KSA (Telecom), Gulf Union (Insurance), Buruj (Insurance) and SALAMA (Insurance) while the top losers were MetLife AIG ANB (Insurance), H B (Agriculture and Food Industries), Jarir (Retail), Ma'aden (Industrial Investment) and Al Hammadi (Retail).

For the time being, Saudi Aramco, the state-owned oil company worth trillions of dollars, is still contemplating whether it will list a percentage of its shares or a bundle of its subsidiaries. However, when and if the decision is made it would be a major market event for local and international investors alike.

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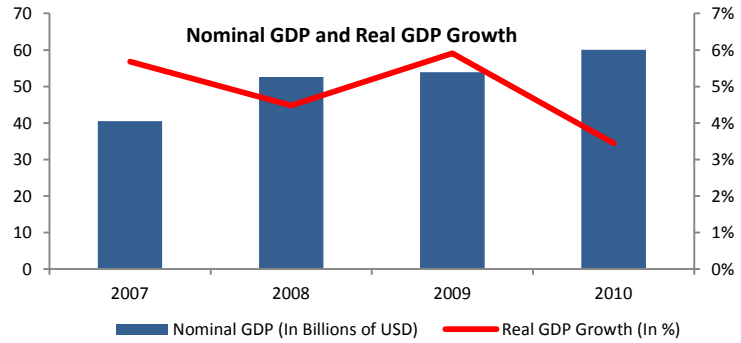
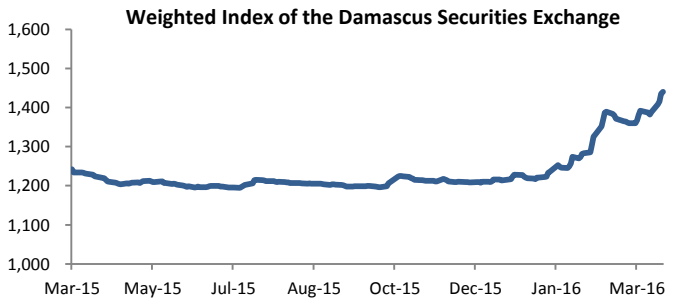
Syria Macro and Equity Market

An Economy Aching to Cope with an Ongoing War

Macroeconomic and Equity Market Indicators





On the ground, Syrian government forces took back the historic city of Palmyra in March after it was seized by IS militants back in May 2015. On the diplomatic front, the Geneva peace talks were anything but smooth with delays, suspensions and a precarious ceasefire.

On the economic front, a war-ridden Syria is a fertile land for exorbitant pricing and loose controls. In an attempt to crackdown on price manipulations, the Minister of Internal Trade and Consumer Protection issued a decision compelling all internal trade directories to extend the period of price-reductions and to schedule field tours, especially to monitor footwear and clothing stores, to audit bills and take punitive actions against stores exploiting consumers. In the same line of thought, the Ministry of Internal Trade and Consumer Protection sought to impose a unified price for sugar in the markets of Lattakia. The price of one kilogram of sugar surged to 300 SYP which compelled the Ministry to intervene by setting the maximum price at 260 SYP and at 250 SYP for sugar sold in bulk.

When it comes to the oil sector, it has been hardly hit by the war. The Syrian light and heavy crude oil is unavailable and the imported oil is not sufficient for the Homs and Banias refineries to operate and meet local demand. According to the Ministry of Oil and Mineral Wealth, the total direct and indirect losses of the oil sector amounted to $52B since the start of the conflict and up to the year 2015. Syria is forced to resort to foreign companies to supply its two oil refineries. Newly released information reveals that Syria signed two contracts back in 2015 one with a Lebanese company "Jico Offshore" and the other with a Russian company "Transnational". The contracts' duration is one year and it states that the two refineries will use up 135,000 metric tons per month provided by the cited companies.

To control the import activity and in order to protect local production, the Ministry of Economy and Trade issued a decision according to which no imported item can enter the country unless accompanied by a copy of its import license. However, the granting of import licenses is quite opaque and receiving one is still burdensome for importers. It takes one month to receive a license, three other months after that for the license to take effect. For industrial importers, the import license takes effect six months after it is granted.

Given the length of the process, importers seem to be forgoing some rules issued by the Ministry of Economy and Foreign Trade and the Syrian Central Bank. The Ministry of Economy and Foreign Trade issued decision #703 that splits up imported goods into two distinct lists: List A includes basic necessity goods and List B involves complementary goods. Importers of items from List A must deposit **in SYP** 50% of the value of imports at the Central Bank on the condition that the imports' license's value is 100,000 euros and above while importers of items from List B must deposit 100% of the imports' value at the Central Bank. Since the deposits must be made before the granting of the license, importers are trying to work around the rule to get their license faster.

The deposit rules were designed to ease pressure on the Syrian pound. The Syrian's pound value reached 218.9 Syrian pounds to the dollar, faring slightly better than 219.65 Syrian pounds to the dollar in December 2015 but deteriorating from 211.4 Syrian pounds to the dollar in March 2015.

The government's fiscal revenues are surely eroded as a result of the war. No budget data was released for 2016 but figures were released for the investment budget of the Damascus governorate. Estimates of investment projects indicate a 775 million SYP allocation for schools, 3.13 billion SYP for roads, 100 million SYP for health, 750 million SYP for sewage, 282 million SYP for solid waste, 272 million SYP for a clean and protected environment, 2.4 billion SYP for emergency projects and 415 million SYP for administration expenses.

The deterioration of the Syrian Pound made it more crucial to boost demand for the currency but it also increased the costs for resident banks. Public banks sent a request to the central bank asking for permission to raise interest rates on deposits in Syrian pound. The banks also assured that any upward adjustment in interest rates will be in line with the rule issued by the Council of Money and Credit last year which stipulates that banks can move interest rates between 10% - 20% for long term deposits. The Industrial Bank already increased interest rates by 2% on all of its loan products. The rates on the current account will be 13%, 12.5% for short-term loans, 13.5% for medium-term loans and 14% for long term loans.

The Public Credit Bank (PCB), which only resumed its lending activity in December 2015, made some adjustments in order to cope with rising costs. The PCB adjusted the commissions charged from customers and exchange companies making transfers in SYP. The commission for inter-branch transfers is 0.75 per 1,000 with a minimum amount of 300 SYP while the commission for transfers between resident banks is 0.51 per 1,000 also with a minimum of 300 SYP. The PCB announced that it granted 12,035 loans in Q1 2016 with a value exceeding 3 billion SYP and that it opened two new branches in Quneitra and Hama. The Central Bank is now studying the raising of the loan ceiling from 300,000 SYP to 500,000 SYP for civilians and to 600,000 SYP for the military.

The Real Estate Bank of Syria also resumed its lending activity after it has been halted for three years. In February, the bank launched its durable goods loan targeting the tranche of the population with limited income and that would like to acquire electronic and home appliances but cannot afford to pay for them in cash. By limited income individuals, the Real Estate Bank (REB) is referring to government officials whose salaries are domiciled at the REB. The loan also only covers goods produced locally, can only be granted with the presence of a guarantor, cannot exceed 300,000 SYP, carries a maximum duration of three years and an interest rate of 13%. The loan's monthly payments are capped at 40% of each of the guarantor's and the debtor's monthly salaries.

The weighted index of the Damascus Securities Exchange (DWX) closed at 1,440.13 points, up by 17.29% from points the previous quarter. On average, 96,000 shares were traded with a value of 12 million SYP per session.

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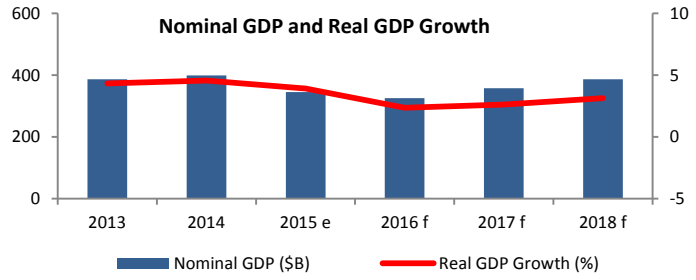
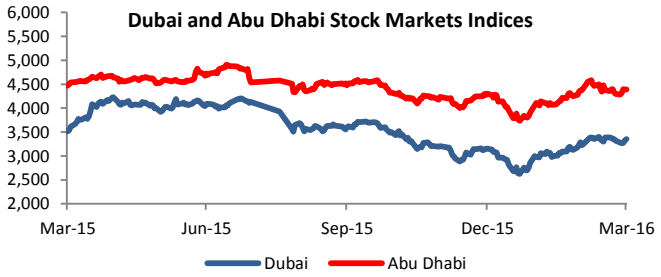
UAE Macro and Equity Market

The UAE: Struggling to Generate Growth in a Low Oil Prices Environment

Key Macroeconomic and Equity Market Indicator





The United Arab Emirates (UAE) remained focused on its strategic goals in spite of the regional tensions. The government is trying to build a balance between its revenues and expenditures to offset the drop in oil prices. However, the country's standing as a global commercial, aviation and shipping hub as well as tourism destination has helped to diversify the structure of the UAE's economy away from oil dependency. Major developers, including Emaar and Nakheel, did not shy away from launching projects in residential, as well as hospitality sectors, showcasing their confidence in the market's future. A number of infrastructure projects related to Expo 2020 are slated for initiation this year and will likely result in a lot of land resources and capital changing hands in the coming months. Also, the country has increased the size of its joint investment fund with each of China and India. On the other hand, major projects are being scaled down or put on hold mostly due to shrinking revenues as it has been announced that the development of phase 2 of the rail network connecting Abu Dhabi, Dubai and onwards to Oman has been suspended.

In spite of the fall in oil prices from an average of $54.1 in Q1 2015 to an average of $33.9 in Q1 2016, the International Monetary Fund (IMF) estimated the real Gross Domestic Product (GDP) for 2016 to grow 2.37% compared to a higher growth of 3.93% in 2015. In nominal terms, the GDP is expected to decrease 5.89% y-o-y to $325.14B by the end of 2016. However, the slump in the "black gold" prices hindered business conditions of the UAE's non-oil economy as reflected by the Emirates NBD UAE Purchasing Managers Index (PMI). The PMI reading averaged 53 points in the first two months of 2016, compared to a higher level of 58.7 points between January and February 2015. Concerning consumer prices, inflation rate in Dubai reached 1.67% in Q1 2016, compared to a higher level of 4.42% in Q1 2015, while Abu Dhabi's inflation recorded 3.30% in the first two months of 2016, compared to a slightly higher level of 3.40% over the same period in 2015. This resulted from the respective 4.2% and 8.2% yearly increases in Dubai and Abu Dhabi's "Housing and utility" prices. In fact, Abu Dhabi implemented in January 2016 higher rates for the consumption of water and electricity consumption, noting that water prices alone were increased by 6.6% (y-o-y).

As for tourism, Dubai is currently undertaking a massive expansion program for both its airports – Dubai International and Al Maktoum – to accommodate increasing demand. The renovated Al Maktoum International Airport will be able to handle up to 26.5 million passengers per year by 2025 with eventual annual capacity reaching 220 million passengers upon completion. As for Dubai International Airport (DXB), it maintained its title as the world's busiest airport registering a 6.5% yearly rise by February 2016, to 13.70M passengers.

Meanwhile, the hospitality industry slowed down as reflected by occupancy rates in the Emirati 4-and 5-stars hotels. In fact, Dubai's hotel occupancy rate ticked down by 1 percentage point (p.p.) to 86% in Q1 2016, while that of Abu Dhabi slipped by 2 p.p. to 82% over the same period. Also, each of Dubai's average room rate (AVR) and revenue per available room (RevPar) dropped by 7.7% and 9.1% y-o-y to $292 and $255, respectively. In Abu Dhabi, the AVR fell 19.1% y-o-y to $143, while the RevPar lost 21.1% to $119. This large drop is probably due to the absence of large trade fairs this year, in addition to the decline in the number and duration of stay of tourists from oil exporting countries especially from Russia. Also, tourists with a limited budget are not using all hotels facilities and restaurants. In the same way, the drastic drop in oil prices is still exerting more pressure on the country's external front. According to the Institute of International Finance (IIF), UAE's current account deficit is expected to widen for the second year in a row to $21.1B by the end of 2016. This could be mainly attributed to the 35% estimated annual tightening of UAE's trade surplus from $66.6B in 2015 to $43.3B in 2016. Even though total imports are projected to steady at $224.9B, trade surplus will most likely contract due to the projected 8.08% yearly decrease in overall exports (hydrocarbons and non-hydrocarbons). In details, hydrocarbon exports (16.42% of total exports) are expected to drop to $44B in 2016, while non-hydrocarbon exports (83.58% of total exports) are forecasted to register a 3.06% decline to $224.1B.

Likewise, the fiscal performance of the Emirates indicated more weaknesses in Q1 2016. As a result, the Institute of International Finance (IIF) forecasted that the consolidated fiscal primary balance (excluding net lending) will register a deficit of $56.2B (4.4% of GDP) by the end of 2016, up from a lower deficit of $29B (2.2% of GDP) estimated for 2015. In details, total consolidated revenues are expected to shrink by 14% to $350.7B in 2016, mainly due to the contraction in hydrocarbon revenues by 30% from $216.7B (53% of total revenues) in 2015 to $161.7B (46.1% of total revenues) in 2016. As for non-hydrocarbon income, they are projected to edge down by 2% y-o-y to $189B at year end. The consolidated government expenditures (excluding net lending) are projected to fall by an annual 7.00% to $406.9B in 2016, down from a higher level of $437.5B registered the previous year. This was established as the UAE's recent budget, for the first time in decades, saw cutbacks in expenditure , subsidy reforms and plans to diversify the revenue base, indicating that the government is gearing up to cope with the recent downturn in oil markets.

Monetary developments mirrored the delicate economic growth. In fact, M3 slightly widened by 0.61% from December 2015 to reach $373.48B by the end of February 2016. Total bank assets marginally dropped by 0.50% to $670.32B in the first two months of 2016, down from $673.65B recorded in December 2015. The drop in oil prices in the first two months of the year was reflected on the banks' foreign assets as they lost 5.52% to $135.16B, down from $143.05B in December 2015. Similarly, total deposits fell by a mere 0.05% to settle at $400.50B over the same period. Even with S&P warning that droopy oil prices will pinch deposits at Emirati banks, residents' deposits went up to $355.33B by February 2016, compared to $353.96B in December 2015, while non-residents' deposits ticked down from $46.69B to $45.17B over the same period. On the other hand, domestic credit inched up by a mere 0.92% (year-to-date) to $379.58B by February 2016.

The continued period of low oil prices is tightening regional liquidity which is also affecting the exchange on the Emirati stock markets. In particular, the Dubai and Abu Dhabi's markets witnessed negative performance as their indices lost respectively, 4.52% and 1.73% y-o-y to 3,355.53 points and 4,390.42 by the end of March 2016. Consequently, Dubai's market capitalization narrowed from $81.97B by March 2015 to $79.77B. On the other hand, Abu Dhabi's market capitalization added 3.65% y-o-y to $116.78B. Meanwhile, the average daily trading volume inched up from respectively 250.3M and 88.33M in Dubai and Abu Dhabi by Q1 2015, to 428M and 149.5M in Q1 2016.

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