BLOMINVEST BANK S.A.L.

September 07, 2016

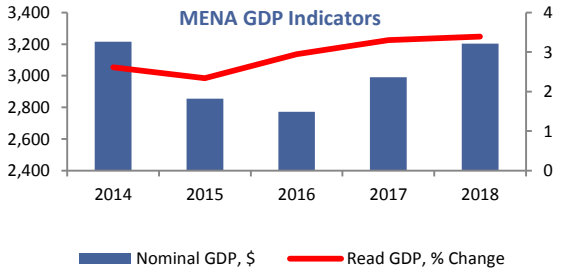
MENA Review and Quarterly Outlook

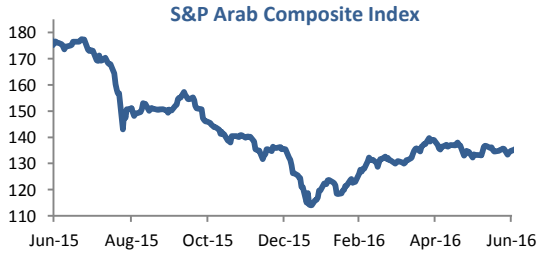
BLOMINVEST Views on Regional Economic and Financial Developments for Q2 2016

View of the Quarter

The macroeconomic picture in the MENA region was little changed during the second quarter of 2016. Oil-exporting countries were still trying to weather the impact of subdued oil prices on their fiscal and external positions by diversifying away from oil. Saudi Arabia announced an ambitious and saluted National Transformation Program focused primarily on strengthening the non-oil economy through the active participation of the private sector. Many projects and events were added to the United Arab Emirates' (UAE) agenda in Q2 2016 as a try-out to attract more tourists and strengthen the real estate sector. As for Qatar, authorities tried to cut governmental expenditures in addition to raising near $9.0B in the debt markets. When it comes to oil-importing countries, low oil prices failed to boost economic performance as regional instabilities along with structural external and fiscal deficits remained sturdy. Starting with Egypt, the devaluation of the pound did not limit the development of the black market but drove upwards inflation levels and imports' prices. Likewise, rebuilding Foreign Currency reserves was not achieved amidst worsening tourism and investment environments. In Jordan, the Central Bank of Jordan has attempted to lower interest rates to spur investment, but continues to face difficulties in translating these policy changes into results. Lebanon is still trying to recover from previous years' low growth levels; however, with the continuing political deadlock, and without structural reforms, Lebanon is deemed to remain in the vicious cycle of low growth, low investment, high external and budget deficits, and high debt. On the Syrian battlefield, the regime and the opposition are fighting to take over the strategic town of Aleppo. On the economic front, the government was left with no choice but to up energy prices, a move that sparked a strong wave of popular outrage.

HEADLINES





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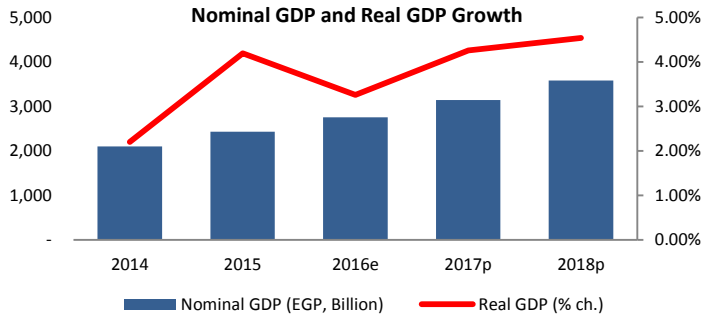
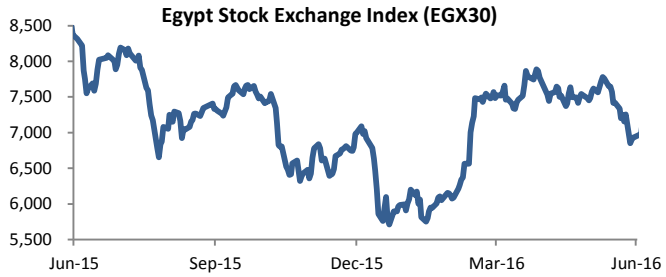
Egypt Macro and Equity Market

Torn Between Boosting Foreign Reserves and Bearing the Burdens of Lower Pound

Key Macroeconomic and Equity Market Indicator





No economic progress was recorded when it comes to Egypt during the second quarter of 2016. The country kept on suffering from draining foreign currency (FC) reserves and an overvalued exchange rate. From one side, the political instability, which painted the country since the eruption of the Arab Spring, heavily weighed on tourism and foreign investment and hence on inflows of FC. From the other side, the devaluation of the pound that took place during the first quarter of the year failed to narrow the gap between official and unofficial currency rates and worsened the country's existing fiscal and current accounts. This has pushed the government to approve "in principle" the Value Added Tax (VAT) bill in May (later amended by the parliament at the end of August to include a rate reduction from 14% to 13% and an increasing number of exempted items), and which is part of the 2014's fiscal reform program targeting lower energy subsidies and narrower fiscal deficit. This step aims at increasing the government's fiscal revenues, yet is expected to intensify inflationary pressures.

Resultantly, the International Monetary Fund (IMF) expected real Gross Domestic Product (GDP) growth to slip to 3.3% in 2016 amid talks between Egypt and the Fund about securing a $10B loan. Still, official data revealed that the economy grew at a real rate of 4.5% during the first half of the fiscal year (FY) 2015/16. This mainly resulted from the 4.8% increase in domestic demand as opposed to the 0.3% downtick in net external demand. From a sectorial perspective, construction and real estate activities were mainly behind the real Gross Domestic Product (GDP) growth despite the deteriorating tourism activity. Despite the recorded economic growth, one of the quarter's highlights was the anti-government protests following the transfer of control of Egypt's Red Sea islands Tiran and Sanafir to Saudi Arabia in April, which was annulled two months later by a court vote.

As for the activity of the country's non-oil manufacturing sector, Egypt's Purchasing Managers' Index (PMI) revealed an economic contraction in the FY 2015/16, down from the stagnating performance of the previous year. In fact, the index averaged below the 50 neutral-mark between July 2015 and June 2016 at 47.8 points, compared to the 50.1 reading registered during the same period a year earlier.

On a different note, rising inflation levels were one of the short term implications of the Central Bank's decision to devalue the Egyptian pound. As a result, monthly core inflation hit double digits once again in May and then in June when it recorded respective levels of 12.2% and 12.4%. Still, core inflation averaged 8.03% in FY 2015/16 close to the previous FY's average level of 8.13%.

On the external front, the currency devaluation did not have a positive impact on Egypt's external position during the first three quarters of FY2015/16, but in contrary external indicators reached alarming levels. In fact, the Balance of Payments reported a more than threefold growth in its deficit to $3.64B, up from a previous $1.05B. As for the current account, it recorded a deficit of $14.47B in July-March 2015/16 as compared to the $8.35B deficit recorded in the same period last year. This came about despite the stagnating level of trade deficit that slipped by a mere 0.78% to $29.32B as a result of exports (-21.6%) decreasing at a faster pace than imports (-8.4%). In fact, a cheaper pound did not made Egyptian exports more competitive but in contrast put more pressure on importers as they were obliged to pay higher prices for their imported products amid a shortage in foreign currency. In reality, the widening deficit of the current account resulted from a narrowing surplus in Egypt's balance of services. For instance, the expansion of the Suez Canal did not boost its revenues as revealed by the 4.9% y-o-y drop in its receipts to $3.88B in July-March 2015/16. Similarly, the waning tourism sector led travel receipts to substantially narrow from $5.47B between July 2015 and March 2016 to $3.26B in the same period this year.

On the brighter side, and given the relatively stable security situation, investors' willingness to place their funds in the Egyptian market remained strong. Several alliances, deals and loans took shape during the quarter and were topped by China's support to Egypt's $45B new administrative and business capital. Another $25B Russian loan was granted to Egypt to build nuclear power plant. In addition, the United Arab Emirates (UAE) promised $4.0B to support Egypt's economy, with half of it intended for investment projects and the other half will be a deposit at the Central Bank of Egypt (CBE) to support its FC reserves. This was reflected by the rising surplus of the capital and financial account from $6.65B in July-March FY 2014/15 to $13.91B in the same period of FY 2015/16. Among others, Foreign Direct Investments (FDI) grew 14.5% y-o-y to $5.85B, while the net outflows of portfolio investment in Egypt went down by 27.3% to $1.50B.

Recovery of tourism in Egypt seems out of sight, given the repetitive blows to the industry from terrorist attacks to technical failures in the aviation sector. Between January and May 2016, tourists' number stood at 2.01M, almost half of last year's level of 3.97M. As a matter of fact, repercussions of the terrorist attack on the Russian airplane drove the number of Russian visitors substantially down. Bearing in mind that they constitute the largest bulk of tourists to the country, Europeans' number tumbled 68% triggering the total number of visitors down.

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Egypt Macro and Equity Market (Continued)

Accordingly, the share of Europeans out of total tourists shed from 74.5% between Jan-May 2015 to 47.5% in the same period this year. Also, the number of nights contracted going from 29.54M between January and May 2015 to 11.75M in 2016. This has sent the average number of nights per tourist to 6 in 2016 compared to 10 a year earlier.

Still, despite the overall deterioration of tourism and hence hospitality sector, Cairo's 4- and 5-star hotels revealed a relative improvement between January and June 2016. Ernst & Young's report associated the progress to the occurrence of Mediconex exhibition that is the largest 3-day healthcare event in Egypt and North Africa and which usually attracts over 10,000 visitors. Hence, Cairo's hotel occupancy rate rose by 10 percentage points from last year's 48% to settle at 58%. This was coupled with improving levels of average room rate and rooms' yield, which respectively rose by 19.2% and 43.1% to $124 and $73.

When it comes to the country's fiscal performance, the first three quarters of FY 2015-16 revealed a widening fiscal deficit following a rise in fiscal expenses that was faster than that of the fiscal inflows. In details, fiscal deficit stood at $27.55B in July-March 2014/15 compared to $26.21B in July-March 2015/16. Fiscal inflows added 1.1% y-o-y to $37.36B, while fiscal expenditures increased at a faster pace of 7.0% to $66.09B. The national net domestic debt also went higher from a previous $200.53B by March 2015 to $253.11B March 2016 on rising treasury bonds and bills by 35.5% and 21.8% y-o-y, respectively,

On the monetary front, devaluing the Egyptian pound did not help in narrowing the gap between the official rate and the rate on the black market. In contrast, and while the official rate went from an average of 8.0/USD in Q1 2016 to 8.9/USD in Q2 2016, the exchange rate on the black market continued its depreciation as it averaged 10.8/USD in Q2 2016 compared to 9.38/USD in Q1 2016.

In addition, the inflationary pressures resulting from the measures adopted by the CBE to ease the shortage in FC reserves led the Monetary Policy Committee (MPC) to raise interest rates during the second quarter of the year. In fact, the MPC increased on the 16th of June, for the second time, each of the overnight deposit rate, the overnight lending rate, the rate of the CBE's main operation by 100 bps to 11.75%, 12.75%, and 12.25%, respectively. The discount rate was also increased by 100 bps to 12.25%. In the same context, the CBE's scheme to increase reserves in FC started to bear fruit as net international reserves reached $17.55B in June 2016, up from $16.56B in March 2016, yet still below the $20.08B level reached in June 2015.

However, promising results characterized the banking sector's top indicators during the first three quarters of FY 2015/16. Credit facilities witnessed a 12.9% y-o-y increase in May 2016 to reach $104.20B, noting that 60% were disbursed in local currency. Total deposits also went up by 3.35% y-o-y to $194.57B. In details, local currency deposits, constituting 81.7% of the commercial banks' total deposits, increased by 2.8% y-o-y to $158.17B compared to a faster 5.66% increase in FC deposits to $36.40B.

The positive momentum that marked the Egyptian stock market during the first quarter of the year was short-lived as the second quarter highlighted a deteriorating investors' sentiment. Brexit uncertainties, Airline disasters, the Federal Reserve decision to stabilize interest rates and the ECB's decision to raise interest rates 1% to temper the rising inflation are some of the reasons behind the negative performance of the stock exchange.

As a result, the Egyptian stock index (EGX 30) lost 8.0% by the end of June 2016 to reach 6,942.52 points as compared to 7,524.99 points by the end of March 2016. This was also translated by a narrower market capitalization that stood at $24.77B in Q2 2016, registering a 7.6% quarterly drop. That said the total volume of traded shares reached 10.26B and were valued at $3.40B in Q2 2016 compared to 14.58B shares worth $3.30B in the previous quarter.

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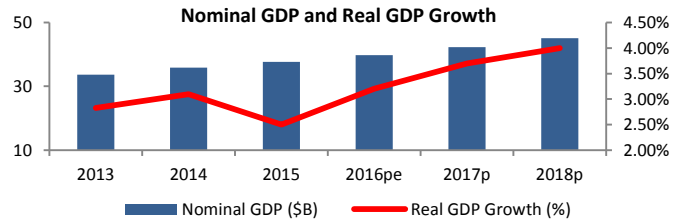
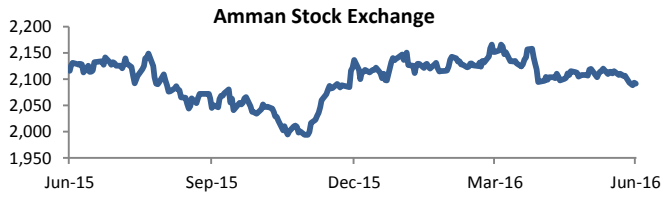
Jordan Macro and Equity Market

Low Interest Rates and Poor Investment Incentive

Key Macroeconomic and Equity Market Indicators





Pressures on the Jordanian economy continued to grow over the first six months of 2016. As registered refugee numbers remain around the 650,000-mark and funding remains woefully short of the necessary budgets, the Hashemite Kingdom's economic indicators have achieved similar poor rates of success. Growth estimates have remained low, the tourism sector is subdued and budget deficits continue to expand. Several agreements have been made concerning trade, but more must be done if the economy is to get back on its feet.

On the economic front, growth expectations for the Jordanian economy remain subdued, with no new estimates being released since the publication of the World Economic Outlook (WEO) April 2016 edition, which estimated GDP growth rates starting 2016 at 3.20%, 3.70% and 4%, respectively, for the coming 3 years. However, on a positive note, Jordan's Consumer Price Index (CPI) managed to erase a portion of the decrease over the first quarter of the year, with the decrease over the year at 1.12%. Over the first three months of 2015, the decrease was at 1.89%.

Tourism in Jordan began 2016 on a sour note. Over the first 3 months of the year, the total number of tourists (including same day and overnight travelers) displayed a 6.80% decline to 1.05M, according to the Ministry of Tourism and Antiquities. Total travel receipts reflected this poor performance, as ministry data indicated a 4.6% downturn to JOD 612.4M ($864.71M). The Ernst & Young Middle East hotel benchmark survey also reflected the general negativity regarding the sector, as the occupancy rate over the first six months of the year revealed a drop from 56% to 49%, while Amman's average room yield (ARY) over the same period displayed an 11.60% annual drop to $78, despite the average room rate (ARR) gaining 1.70% y-o-y to $160.

Jordan's trade also portrayed weak performance. By H1 2016, Jordan's trade deficit expanded by 2.70% annually to JOD 4.50B ($6.35B). This widening was primarily due to the 9.58% y-o-y drop in total exports to JOD 2.10B ($2.97B), and despite a 1.13% downtick in total imports to JOD 7.01B ($9.89B) over the same period. The drop in exports was primarily linked to the 42.44% drop in the export of crude potassium to JOD 124.47M ($175.75M) and the 1.50% y-o-y decrease in knitted articles of clothing to JOD 427.41M ($603.51M). In contrast, Jordan managed to improve its phosphates exports by 2.75% to JOD 168.82M ($238.38M) as a result of a new trade agreement with India to boost exports of this commodity. Meanwhile, the decrease in the Kingdom's imports could be traced back to decreases in the value of imports of most food items. However, significant increases in the import of cereals, electric machinery and vehicles played a major role in keeping the trade deficit at an escalated level. In details, cereals imports grew by 68.63% y-o-y by June to JOD 348.52M ($426.8M), while imports of electric machinery and vehicles each increased by 23.17% and 10.07% to respective values of JOD 432.15M ($610.20M) and JOD 657.86M ($928.90M) over the same period.

Liquefied natural gas (LNG) also witnessed a significant rise in its level of imports, rising from JOD 88.38M ($124.79M) by June 2015 to JOD 476.23M ($672.44M) over the same period in 2016 as a result of the two LNG contracts awarded to suppliers in Switzerland and Spain during the start of the year.

The negative effects of Jordan's economic status extended to the fiscal sector as well, as the general budget, inclusive of foreign grants, recorded a fiscal deficit of JOD 22.10M ($31.21M) by April 2016. In comparison, the general budget was at a surplus of JOD 164.70M ($232.56M) over the same period in 2015. Disregarding foreign grants, the fiscal deficit demonstrates little change, registering a deficit of JOD 174.30M ($246.11M) by April 2016, compared to a deficit of JOD 82.2M ($116.07M) over the same period in 2015. Similarly, gross outstanding public debt rose 1.96% since the start of the year to reach JOD 25.37B ($35.82B), equivalent to 93.7% of the GDP, compared to a lower 93.4% by December 2015. Outstanding external public debt accounted for JOD 9.50B ($13.42B) following a 1.21% y-t-d increase in value, while a 2.22% y-t-d rise in outstanding domestic public debt to JOD 15.86B ($22.40B) constituted the remaining portion.

On the monetary front, Jordan's money supply (M2) continued to increase at a slower pace than last year. As of May 2016, domestic liquidity had gained 1.20% y-t-d to register JOD 32.00B ($45.18B), compared to a 4.50% rise a year earlier. Meanwhile, total credit facilities extended by licensed banks witnessed a 5.03% gain during the first 6 months of 2016 to JOD 22.17B ($31.30B). Over the same period, total deposits at licensed banks increased by a slower rate of 1.23% to JOD 33.00B ($46.60B). In details, 79.41% of these deposits were denominated in the local currency, with the remainder held in foreign currencies. The loan to deposit ratio as of June 2016 stood at 67.18%, compared to a lower 64.74% at the end of 2015. The economy is witnessing a poor investment environment, so the weighted average rate on overdrafts was reduced to 7.77% by June 2016, down from 8.01% by end-2015. Meanwhile, the weighted average rate on loans and advances had descended to 8.16% by May 2016, but then increased to 8.38% by end-June.

The Amman Stock Exchange (ASE) finally succumbed, ending the first six months of the year at a 2.11% y-t-d decline to 2,091.35 points, despite the gauge increasing 0.73% in Q1 2016. The index's market cap lost 4.94% y-t-d to JOD 16.81B ($23.74B). After the delisting of two securities in March, the market cap declined 3.54%. Non-Jordanian investors assumed a net-buying position, as net investments totaled JOD 141.3M ($199.52M) by June. The month of June represented an inflection point, however, and whether or not the trend has continued in the wake of Brexit and the shock it caused in global markets must be considered, as some investors may exit market positions to lock in returns or cut losses.

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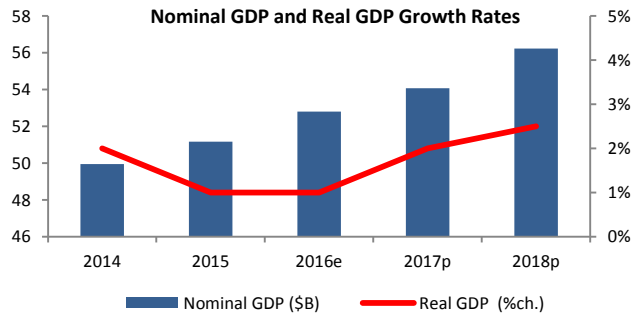
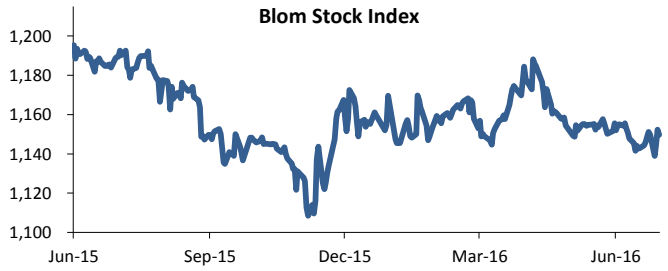
Lebanon Macro and Equity Market

Failing to Recover amid Political Deadlock

Key Macroeconomic and Equity Market Indicators





As the political situation remained unstable in Lebanon, the country observed fluctuations in its economic indices and geopolitical dynamics. Lebanon recorded its lowest levels in several different sectors.

In specific, Lebanon's PMI registered 44.4 in Q2 2016 compared to 49.3 in Q2 2015, which is well below the neutral 50.0 threshold. Also, the index's average of 44.4 over the second quarter of 2016 was the lowest since the survey's inception as of May 2013.

As for consumer prices, monthly consumer price index (CPI) report showed a 2.51% yearly decrease, to reach an average of 97.62, compared to the 1st half of 2015. This decline was mainly due to the drops in the CPI's sub-indices: 14.53% plunge in "water, electricity, gas & other fuels" and 1.87% fall in "Food and non-alcoholic beverages." This y-o-y downswing can be attributed to the 21.09% annual drop in oil prices and overall food prices, where the average FAO food price index indicated a 10% decrease by June 2016 compared to the same period in 2015.

For the real estate sector, transactions rose by 4.43% y-o-y to reach 39,100 by Q2 2016. In depth, land transactions displayed a growth of 4.18% to reach 19,566 transactions, built units increased by 4.68% to 19,534 transactions, and the average value of land transactions rose from $102,835 to $104,267 by Q2 2016. In contrast, foreigners' share of the total real estate transactions fell from 2.01% by Q2 2015 to 1.48% by Q2 2016. The improvement in the real estate sector is due to two main factors, the low base reached during 2015 and the decline in prices observed in the past two to three years.

Moreover, construction activity improved whereby the number of permits witnessed a yearly increase of 13.82% to reach 8,408 in H1 2016 compared to 7,387 by Q2 2015. Noting that permits are usually issued at least 6 months after filing the application, construction activity rose after reaching a significantly low number by June 2015, mainly due to the improving political situation.

In regard to tourism, the total number of tourists increased by a yearly 7.7% to 723,105 by Q2 2016. However, the mentioned sector witnessed a downturn in the first half of the year. In details, occupancy rates fell 3 percentage points from 57% by June 2016 to 54% by June 2016, also the average room fell from $164 by June 2015 to $135 by June 2016, the worst performance in the region. As such, according to Global Blue, tourist spending in Lebanon dropped by 18% y-o-y in Q2 2016. This slow performance of the tourism sector can be justified by the slow economic activity in GCC and by the warnings spread by their governments on visiting Lebanon.

Lebanon's balance of payments observed a $ 1.77B deficit by June 2016 compared to a deficit of $1.32B by June 2015. Given the weaker economic activity in oil dependent Arab countries, FDIs and remittances witnessed a drop where, FDI inflows in Lebanon fell by 19.44% in 2015. Also, trade deficit increased 9.72% from $7.23B to $7.93B, where imports increased 7.00%, while exports fell 5.67% by June 2016.

On the monetary side, BDL's total assets increased 9.09% y-o-y to reach $99.1B end of Q2 2016. As such, gold reserves increased annually by 12.29% end of Q2 2016 compared with end of Q2 2015; however, foreign assets decreased to $36.27B, 2.21% less than their value end of 2015.

The BSI witnessed a drop of 3.32% q-o-q from 1,189.31to 1,149.79. Conversely, trade volume ticked up from 9,966,972 shares in Q2 2015 to 10,370,261 shares in Q2 2016, yet the trade value decreased by 11% to $89.27M. Also, market capitalization shrank from $9.71B to $9.54B by June 2016.

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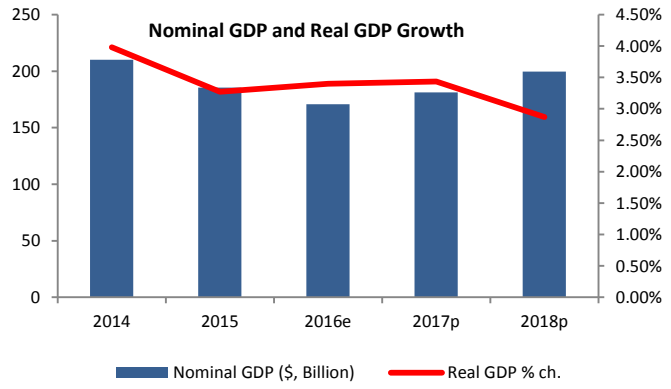
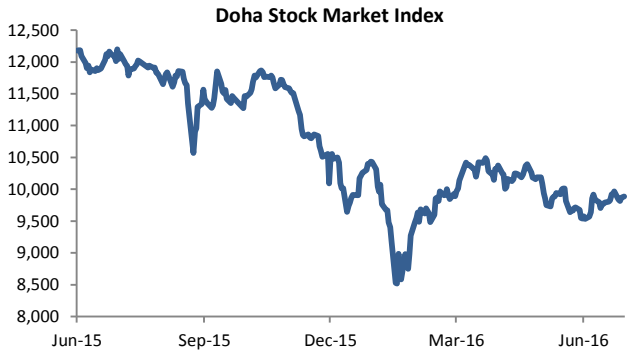
Qatar Macro and Equity Market

Fiscal Reforms Aimed at Mitigating Bearish Oil Trend's Burden

Key Macroeconomic and Equity Market Indicator





To alleviate the pressure of declining oil prices on its economy, the Qatari government has been taking measures to cut its expenditures. For instance, it has reduced the number of planned stadiums for the 2022 World Cup from 12 to 8, it decreased planned spending on building healthcare facilities by two-thirds, and it decreased the number of employed people in the public sector. Moreover, the country has foreshadowed plans to privatize some state-run firms.

Qatar posted a 3.7% y-o-y growth in real GDP during 2015, compared to a higher growth of 4% in 2014, as bearish oil trend continues to impact the economy. GDP growth was driven by the 7.8% y-o-y growth in the non-hydrocarbon sector, while the hydrocarbon sector narrowed by 0.2%. GDP growth is expected to stand at 3.3% in 2016 and 3.9% in 2017, driven by investment spending and population growth.

Quarterly consumer price reached 107.60 in Q2 2016, with inflation standing at 2.8%. The major sub-indices "Housing, water, electricity, & gas", "Recreation and culture", and "Transport" added 5 %, 7.4%, and 2.1%, respectively.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices domestic producers receive for their output, plummeted by 25.3% y-o-y in Q2 2016 to 46.7 points. The PPI was significantly affected by the prices of crude oil and natural gas, where the price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) plunged 24.1% and 24.7% y-o-y to $47.8/barrel and $46.2/barrel, respectively, end of June 2016.

Therefore, the "Mining" group, which represents 72.7% of the PPI, fell by 30.1% compared to the same period of 2015. The PPI "Manufacturing" subcomponent also showed a yearly decrease of 15.4%, as prices of most of the plastic and other production items are linked to oil prices. Meanwhile "Electricity and water" sub-index went down by 5.6% compared to Q2 2015.

Qatar's trade balance narrowed 56.7% y-o-y to a surplus of $100.78B in H1 of 2016, as a result of decreasing exports and increasing imports. Declining oil prices drove down the largest component of total exports, hydrocarbons, by 40.08%, resulting in a 33.8% y-o-y plunge in exports to $26.97B by June 2016.

On the other hand, imports increased by 2.2% y-o-y to $16.19B, however motor cars and other passenger vehicles, the top imported commodities, declined 25.82%.

On the fiscal front, Qatar recorded a $3.52B deficit in Q1 2016, compared to a surplus of $3.24B in Q1 2015. This came as a result of a 59.62% plunge in revenues to $7.83B, while expenditure dropped 29.71% y-o-y to $11.36B by March 2016. Taking advantage of investors' hunger for yield, the Gulf state has raised $9 billion in the debt markets, the region's biggest ever bond offering.

Looking at the monetary sector, total assets at commercial banks went up 5.18% since end of 2015 to $315.99B, end of H1 2016. Private sector credit grew 2.56% to $116.99B, while that of the public sector inched up 10.20% since year start to $70.95B by June. Total deposits broadened 5.13% to $184.58B, due to the 55.55% and 21.23% increase in non-resident and resident private sector deposits. Meanwhile, public sector deposits decreased 4.58% since year-start.

Qatar stocks declined as tightening bank liquidity pushed financial stocks lower and some investors cashed in gains before an upgrade to emerging-market status with FTSE Russell. The Doha Stock Market Index (DSMI) ticked down by 4.73% q/q to 9,885.22 points end of June. Trade during Q2 of 2016 occurred at a lower volume of 469.68M shares worth $4.32B, compared to 615.85M shares worth $5.59B in Q1 2015.

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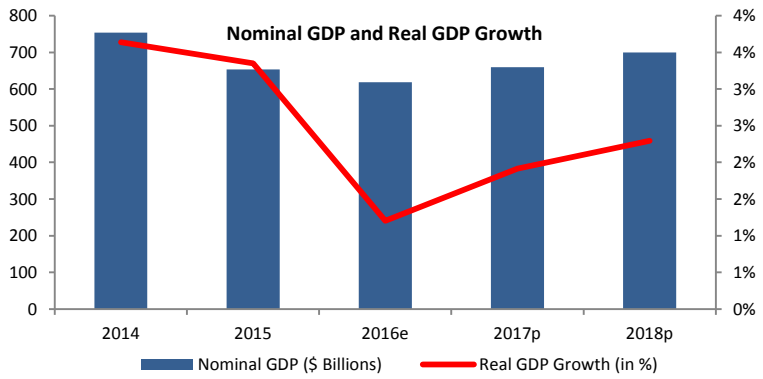
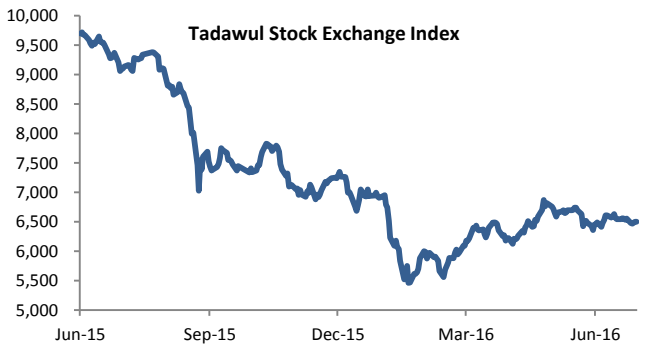
Saudi Arabia Macro and Equity Market

Laying Out an Ambitious National Transformation Program

Key Macroeconomic and Equity Market Indicators





The era of low oil prices compelled the Kingdom of Saudi Arabia to identify the challenges that lie ahead and to determine an action plan drafted under the wing of the Saudi Arabia Vision 2030. The Kingdom released an extensive program called the "National Transformation Program" (NTP), in which ministries and government bodies announce their objectives for the period 2016-2030 and subject themselves to a close monitoring of their performance in fulfilling those objectives.

Aside from strengthening the non-oil economy, the NTP also sets out to tackle other important issues in the Kingdom. On the agenda, enhancing the quality of the judicial system but ensuring access to affordable housing which has been a lingering problem for Saudi Arabia. According to the NTP, in the baseline, the share of real estate financing in gross non-oil national product is at 8%, below the regional benchmark of 16% but the Kingdom is aiming to reach a ratio of 15% by 2020.

The slowdown in the government spending reflected on overall GDP and overshadowed the upturn in the oil sector. Real GDP growth decelerated to 1.54% in Q1 2016 compared to 3.27% in the same quarter last year. The slowdown in growth occurred despite the acceleration of growth in the oil sector from 0.21% in Q1 2015 to 5.14% in Q1 2016. The growth in the oil sector is in line with the kingdom's strategy of maintaining its market share on the oil market as it increased crude oil production from 29.61 million barrels per day in Q1 2015 to 30.67 million barrels per day in Q1 2016.

The NTP will surely prove to be a challenge for Saudi Arabia with the non-oil sector posting its worst performance in at least five years in the first quarter of 2016 (Q1 2016). The non-oil sector regressed by 0.67% in Q1 2016, solely on account of a 2.58% decline in the government sector's GDP. Given the drop in oil prices the government was forced to cut back on spending: in nominal terms, the final government consumption expenditure dropped from $54.18M in Q1 2015 to $37.81M in Q1 2016.

The private sector, which the NTP sets out to strengthen, proved to be resilient in spite of the drop in oil prices. For the second quarter of 2016 (Q2 2016), the Emirates NBD Purchasing Managers' Index (PMI) improved, moving up from an average of 54.27 in Q1 2016 to 54.47 in Q2 2016. In May, the gauge reached a six-month high of 54.8 on account of the fastest rise in new work for 2016.

The Gross Domestic Product (GDP) of the private sector posted a timid real growth in the first months of the year (Q1 2016). According to the national accounts, the real private sector growth stood at 0.21% in Q1 2016 compared to 3.01% in Q1 2015. The nominal private GDP amounted to $82.24B in Q1 2016 up from $81.8B in Q1 2015.

The external sector assumed a downward trend during Q1 2016. Non-oil exports of Saudi Arabia amounted to 41,973 million riyals in the first quarter (Q1) of 2016 as compared to 47,742 million riyals in the corresponding period of the previous year, down by 5,768 million riyals or 12.1%. Total imports amounted to 14,051 million riyals in Q1 2016 as opposed to 163877 million riyals in the same period of 2015. Accordingly, the current account deficit represented 11.9% of GDP in Q1 2016 up from 6.5% in Q1 2016.

The reduction of the Saudi economy's dependency on oil is the most prominent objective ahead. The Kingdom is aiming to move from 163.5 billion SAR of non-oil revenues in the baseline to 530 billion SAR in 2020. Since low oil prices will exercise substantial pressure on the kingdom's public finances, spending is being put on a more sustainable and efficient path. The Kingdom is aiming to reduce the shares of salaries and wages in the total budget from 45% in the baseline to 40% in 2020, the equivalent of a drop from 480 billion SAR in the baseline to 456 billion SAR in 2020. Debt is also targeted to be put on a sustainable yet upward path, rising from 7.7% of GDP in the baseline to 30% in 2020.

Saudi Arabia is continuing to pull out cash from foreign securities as it needs to finance the budget deficit. According to SAMA, the country's central bank, investments in foreign securities fell from $400.28B in December 2015 to $367.20B in June 2016. This redemption was mirrored by SAMA's total reserve assets which fell from $616.42B in December 2015 to $570.06B in June 2016.

The equity market posted a negative performance in H1 2016 with the Tadawul Stock Exchange Index (TASI) losing 6% since year start to reach 2,587.01 points. The market capitalization totaled $401.16 billion while the volume and value of traded shares amounted to 38.74 billion and $183.52 billion, respectively. The most notable corporate action on the market was the acquisition led by Al-Tayyar Travel Group Holding Co. of a 40% share in Equinox Group for $2.13 million. Equinox Group is a project consulting and asset management company in the hospitality sector.

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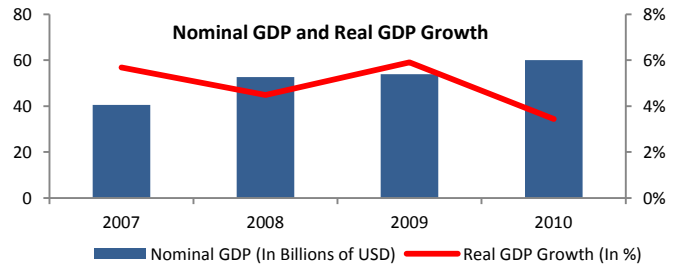
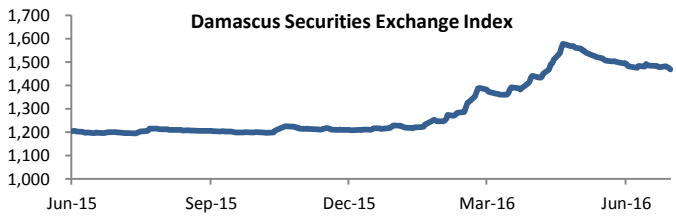
Syria Macro and Equity Market

A Boiling Point for the Regime, the Opposition and the Population

Macroeconomic and Equity Market Indicators





Regime forces launched an offensive on the governorate of Aleppo in late June 2016, a bloody battle aimed at cutting the rebels' supply and that is still raging at the time of writing. The prize of the Aleppo attack would be a strategic supply route but also the symbol of seizing what used to be the home of 6 million Syrians and the country's main economic hub. The loss of the battle is also hefty: For the rebels, losing Aleppo means losing one of their strongholds but also means that their other stronghold Idlib is next on the regime's attack list. For the regime, losing Aleppo would be a hard blow for the army's moral and would dim their hope of gaining control of the northern part of Syria.

The strain of the war on the regime, the rebels and the population is getting ever-more strenuous. The government, in dire need of revenues, lifted energy prices on June 16th: the price of one liter of petrol was upped from 160 SYP to 225 SYP, the price of a 10 Kg bottle of cooking gas was raised from 1,800 SYP to 2,500 SYP and the price of one liter of Mazout was increased from 135 SYP to 180 SYP. The new pricing sparked a heavy reaction from the population which later compelled the government on the 19th of June to increase the monthly salaries of public and private sector employees by 7,500 SYP. Individuals exercising liberal professions, working in the field of agriculture, students, merchants and the unemployed will not benefit from the salary increase.

In the first half of 2016, the external trade activity saw an improvement when compared to 2015. The revenues at the Port of Tartous totaled 4.25 billion SYP compared to 1.85 billion SYP in the same period last year. The same goes for the Port of Lattakia, where the revenues amounted to 10.5 billion SYP, up by 7 billion SYP from the comparable period in 2015.

The authorities have been very active in the legislation regarding foreign trade activities; the Ministry of Economy and Trade recently freed importers from a 50% deposit in Syrian Pounds in relation to imported items such as baby's milk, fertilizers, agricultural seeds and matte and the financing of these imports will be borne by the Syrian Central Bank. For a certain category of imported goods on which customs duties are 20% and 30%, the deposit requirement was scaled back from 100% to 25%.

According to the Syrian Central Bank, importers are allowed to use 25% of the deposited amount to finance only imports that are subject to customs of 1% or 5%. The Central Bank of Syria has also given the importers who have already received their import license or approval a one month deadline to file their applications to buy foreign currencies after which the bank is no longer responsible for their foreign currency funding and the importers' deposited money is returned to them. This decision went into effect as of the first of August 2016.

Regulation was not only centered on imports but also on exports. While the Syrian Central Bank previously compelled Syrian exporters to sell the entirety of their foreign exchange earnings, they are now are allowed to hold on to them until the beginning of September.

The war has allowed for many cases of tax evasion, eating away revenues that the treasury desperately needs. The spending department at the Damascus Ministry of Finance recently stated that it regained 5 billion SYP of consumption tax dues since 31/06/2015 and another 5.5 billion SYP worth of tax evasion. Some of the re-collected amount dates back to 2012, pointing to the large extent of chaos and loopholes the war has inflicted on the economy.

Dealing with international sanctions and defending the value of the Syrian Pound[1] against the dollar have been great challenges for war-ridden Syria. The Syrian Central Bank has attempted to work around the sanctions and the erratic nature of foreign exchange operations by allowing licensed banks to deal with foreign currency transactions, whether the foreign currencies are for commercial or personal purposes, since publically-owned banks are tied by sanctions. According to decision 1409, the banks can now assume positions on the foreign markets on the condition that these positions represent a maximum of 1% of their core capital. The Council of Money and Credit at the Central Bank of Syria will activate the role of banks in FX financing by tapping into its operating reserves that are fueled by transfers from abroad and assets purchased from individuals, financial institutions and banks.

In the second quarter of 2016, the weighted index of Damascus Securities Exchange (DWX) reached 1,469, which registered a 22.41% year-on-year (y-o-y) increase, and a 2% rise when compared to the first quarter of the same year. Total traded volume and total traded value sharply increased in the second quarter of 2016 to reach 5.55B shares and SYP 1.03B ($4.80M), compared to 2.7B shares SYP 379.93M ($1.77M) in Q2 2015, respectively. As for the top performers for Q2 2016 , Ahliah for Vegetable oil ranked first with a 27.39% growth, followed by Al-Baraka Bank Syria, and Syria Gulf Bank with respective inclines of 23.01%, and 7.24%. On the contrary, the worst performers during the same period were Qatar National Bank, Ahliah for Transport, and United Insurance Company which recorded respective drops of 8.77%, 7.41%, and 7.12%.

[1] According to Bloomberg, the spot price of the dollar against the Syrian Pound went from 219.95 at the end of December 2015 to 216.85 at the end of June 2016.

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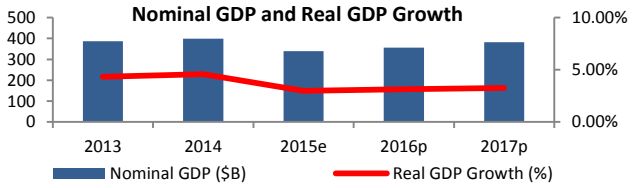
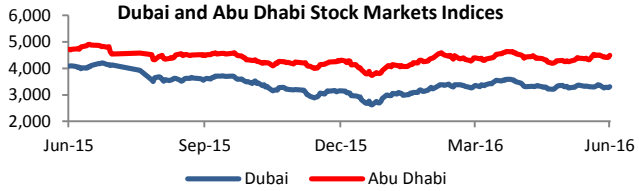
UAE Macro and Equity Market

The UAE: Sluggish Economic Growth Amid Fading Oil Prices

Key Macroeconomic and Equity Market Indicator





Besides the spending cuts and the revenue boosting initiatives to reduce their fiscal deficits, as a response to the drops in oil prices, the United Arab Emirates (UAE) were, as usual maintaining their busy schedule. Among many projects, Dubai will be hosting the World Real Estate Congress in 2018, to be the first Middle Eastern country to win the bid organized by the International Real Estate Federation (FIABCI), and that will strengthen Dubai's economy through attracting business and leisure visitors. Plus, Abu Dhabi Global Market (ADGM) has signed a partnership with Paris Europlace in order to improve financial services within the two markets, and to facilitate long-term investment opportunities. In addition, the latest development regarding the Expo 2020 was the Route 2020 that links the Nakheel Harbour and Tower station on the metro's Red Line to the Expo 2020 site which will be achieved by the end of 2019, consisting of 15km of over ground and underground track, with a budget of $2.88B.

Based on the reports of the International Monetary Fund (IMF), the estimated real growth rate of Gross Domestic Product (GDP) for 2016 is 2.37% compared to 3.93% in 2015. A decrease is expected in terms of nominal GDP, from $345.48B in 2015 to $325.14B in 2016 basically due to the fall in oil prices. Regarding the Emirates UAE Purchasing Managers Index (PMI) during the first six months of 2016, it attained an average of 53.4 in comparison with 56 at the same period of 2015. By May 2016, Dubai's inflation averaged 1.75%, whereas in Abu Dhabi, the inflation rate reached an average of 2.7%.
In the tourism sector, DXB welcomed 34.6M passengers during the first five months of 2016, compared to 32.3M during the same period last year. The continuous efforts to fulfill Dubai's future target of 20M visitors by 2020, led to a diversification of tourists to promote the Emirates as a destination for middle-class travelers. 16 new tourist attractions are opening, including the $707M Six Flags theme park in Dubai.

The hospitality sector in the UAE saw a slowing performance during H1 2016. Despite the fact that Dubai witnessed a 5.1% increase to reach 4.1M overnight visitors in Q1 2016 compared to Q1 2015, the occupancy rates declined during the first six months of the year. This drop may be the result of a slowdown in the number of visitors in Q2 2016, a decline in the average duration of stay by tourists, an increase in the number of hotel rooms, or a combination of the three factors. In fact, 4- and 5-star hotels in each of Dubai and Abu Dhabi registered similar yearly declines of 3 percentage points (pp) to 81% and 77%, respectively. Meanwhile, Abu Dhabi's average room rate (AVR) dropped 15.2% y-o-y to $132 during the first six months of 2016, while Dubai's AVR decreased by 5.3% to 268$. Concerning the revenue per available room (RevPar), it fell down by 18.9% in Abu Dhabi to $102, and dropped by 8.7% in Dubai to $218. According to the Dubai Hotel Market Overview, 621 new hotel rooms have opened during the first quarter of the year, and additional 9,400 rooms will be added to the market by the end of 2016, like the W Dubai – Al Habtoor City that was launched on June 20, the Lapita Hotel Dubai, Hard Rock Hotel Dubai Marina and Nikki Beach Resort & Spa Dubai. On the other hand, Abu Dhabi's visitors will be facing new tax on hotel stays by an additional 4% of a guest's hotel bill, plus $4.08 per night per room, which will cause some visitors to reduce the number of days spent, at least for the first few months before they get used to it.

The external sector in the UAE is suffering from the droopy oil prices, which in turn resulted from the retrograded hydrocarbon exports. In fact, the UAE is expected to record its first current account deficit in 2016 that could reach $1.2B (around 0.3% of GDP). As stated by the Institute of International Finance (IIF), the trade surplus is estimated to narrow 15.05% to $62B by the end of 2016. Total exports are forecasted to slip by a marginal 1.8% to $297.2B in 2016, of which only 16.28% are hydrocarbon exports. Still, the 20% yearly decrease in Hydrocarbon exports is projected to outweigh the 2.8% yearly rise in non-hydrocarbon exports. In contrast, imports are forecasted to reveal a 2.5% yearly increase to settle near $235B.

Concerning the fiscal sector, the consolidated government balance is expected to register a deficit of $22.79B (almost 6.4% of GDP) by the end of 2016, that is substantially above last year's estimated deficit of $13.61B (3.8% of GDP). Consolidated revenues are forecasted to slump by 11.9% in 2016 following an 18.3% yearly drop in hydrocarbon revenues (51% of total revenues) and a 4.2% annual decrease in non-hydrocarbon revenues. As for consolidated government expenditures, the IIF foresees a drop in 2016 by a slight 3% to reach $117.39B.

The monetary sector is about to mark the merger of the two major banks, National Bank of Abu Dhabi (NBAD) and the First Golf Bank (FGB) to make the largest bank in the Middle East and Africa with assets valuing more than $175B. On a different note, the monetary aggregates M3 registered a growth of 1.64% to reach $371.6B in June 2016, compared to $365.61B in December 2015. Total bank's assets in the UAE have risen to $682.28B by May 2016, after they recorded $674.68B by December 2015. Foreign assets have in fact enhanced presumably after the improvement of oil prices, from $135.16B in December 2015 to reach $136.84B by May 2016. Total deposits have slightly changed since December 2015, and moving from $348.05B to $349.95B by May 2016. Furthermore, credit facilities ascended from $376.04B to $385.11B by the same period.

Slight improvements in the stock market of Abu Dhabi were registered during Q2 2016 compared to the previous quarter, probably due to the partial recovery in oil prices since the beginning of the year. Abu Dhabi's stock index showed an increase from 4,390.42 points by March, to 4,552.67 by June. And the capitalization market also increased from $109.48B to $111.59B by the same time. Also, Abu Dhabi's average daily traded volume registered 85.85M shares at an average value of $455.78M by June 2016, compared to 135.05M shares worth $582.39M by Q1 2016.

On the other hand, Dubai's index registered 3,311.10 points by June 2016 after it noted 3,355.53 points in Q1 2016. The market capitalization in Dubai rose from $79.14B by March 2016 to $79.16B by June 2016. The average daily traded volume reached 265.3M shares at an average traded value of $100.908M during Q2 2016, compared to 395.6M shares worth $149.68M in Q1 2016.

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