



Nov. 08th 2019

Contact Information

Economist: Rouba Chbeir

rouba.chbeir@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

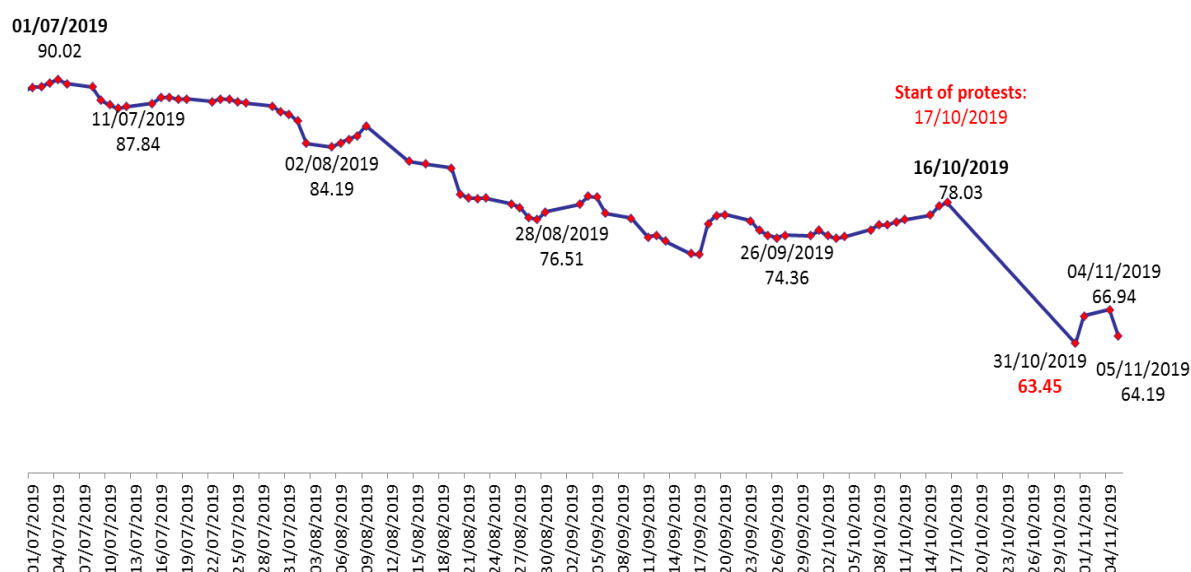
Research Department

Tel: +961 1 991 784

Abstract

The paper analyses two national indices, the BLOM Bond Index and BLOM Stock Index. Both indices generated by BLOMInvest Bank are used by international news agencies, to assess the performance of Lebanon’s markets and derive the country risk.

Blom Bond Index



Source: BLOMInvest Bank, Economic Research Dept.

The Blom Bond Index (BBI) ended H1 2019 with feeble performance. The Lebanese fixed income market ended H1 2019 on a shy note. Appetite for fixed income instruments was weak in the first half of the year despite the formation of a long-awaited government by end-January. Yields on the 5Y and 10Y Eurobonds remained high, at 11.68% and 10.75%, respectively, by June 2019 compared to 10.02% and 10.55% in H1 2018.

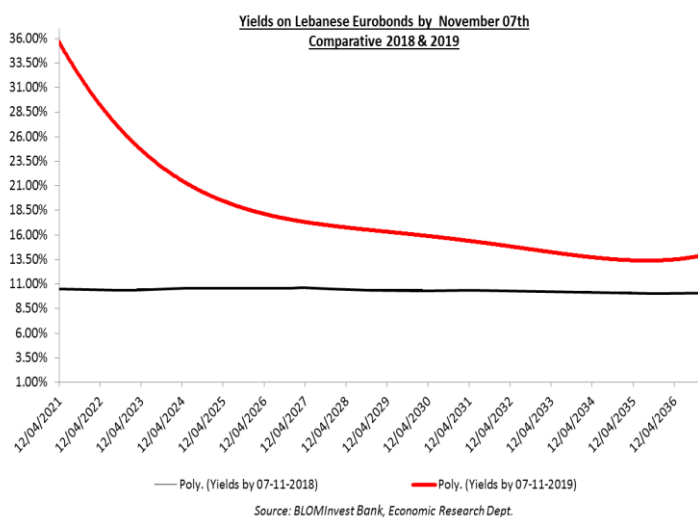
The performance of Eurobonds followed a downtrend in H2 2019, owing it to multiple headwinds. The Blom Bond index (BBI), which captures prices of Lebanese Eurobonds, slumped by 28% since end-June 2019 to stand at 63.8 points by November 07th. Simultaneously, the average yield climbed from 10.9% to 21.1% over the same period. Lebanon witnessed major headwinds, including sanctions and policies that weighed down on the economy.

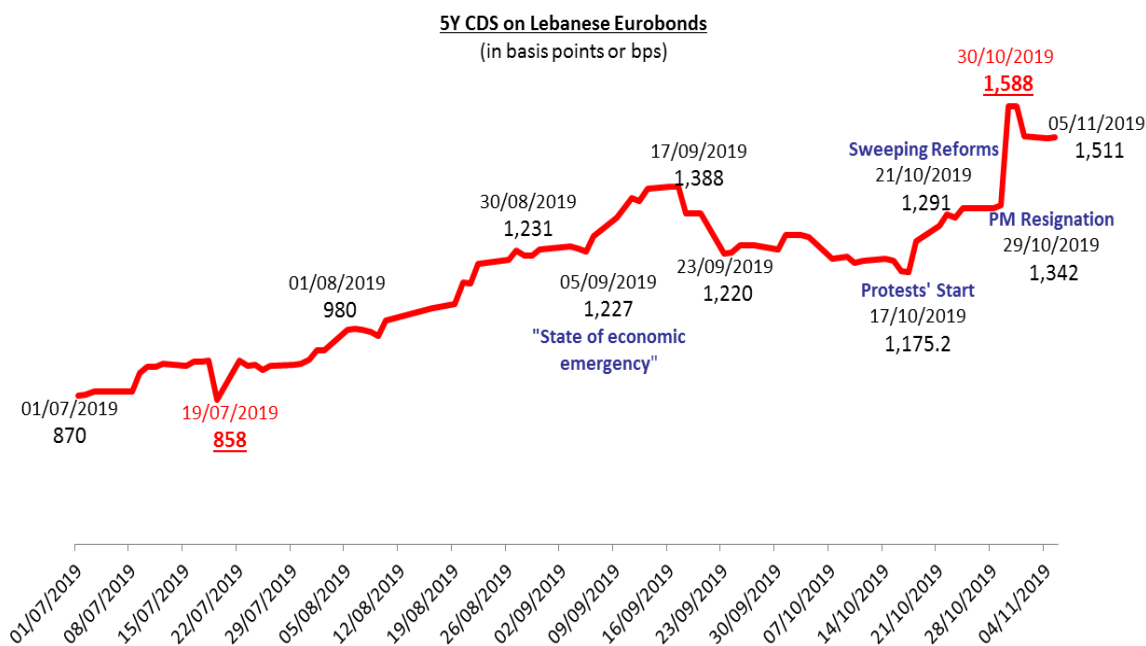
The main developments were prominently political, but their impact sheer economic. Lebanon’s timeline of events first witnessed (during July 2019) the USA adding onto its public list of sanctioned individuals, the names of 3 top figures that are members of Hezbollah, two of which are members of the Lebanese parliament. A month later, tensions heightened between Israel and Hezbollah. Moreover, the US government sanctioned the Lebanese *Jammal Trust Bank* by end-August, on grounds of facilitating banking transactions of Hezbollah. These developments drove the BBI down by a monthly 13.8% to end the month at 74.6 points. It followed that the index yield climbed from 11.6% on August 01st to 14.8% by end-august.

Occasional monthly upticks were witnessed in the BBI starting September, yet they were soon reversed. Positive upticks were recorded by mid-September, as possible infrastructure projects funded by the GCC were brought to light. Shortly later, Lebanon was declared “a state of economic emergency” mainly to expedite consent and immediate implementation of public finance reforms. However, news on a potential downgrade by Moody’s credit agency in October, alongside a series of proposed new taxes on the public for fiscal tightening, triggered the eruption of streets, taking Lebanon into a platform of demonstrations that disrupts trade, businesses, and Eurobonds prices. In details, the BBI index stumbled from 78.03 points on October 16th, to reach an unprecedented historical low at 63.45 points by October 31st. Simultaneously, the average yield soared from 14.7% on October 16th to 21.3% by October 31st, and slightly eased to 21.1% on 07th of November.

The yields on short-term Eurobonds soared right after the onset of the protests, steepening even more the inverted yield curve. In fact, the Lebanese yield curve was relatively flat by November 07th 2018, noting that the inversion had started gradually, only to steepen in H2 2019 on the back of the October protests.

Yields on the 2Y and 5Y Lebanese Eurobonds reached highs of 36.1% and 21.5% on November 07th 2019, compared to 9.4% and 10.1% in November last year. In their turn, yields on the 10Y maturities rose to 15.4% compared to last year’s 10.6% in the same period. As a result, the spread between the Lebanese 5Y and 10Y yields from their US counterparts went from 1,593 and 1,177 bps on October 16th to 2,404 bps and 1,536 bps on November 07th 2019.





Foreign investors’ concerns have been particularly on the rise since August 2019. Amidst this turbulent period, all eyes turn towards the 5year credit default swaps (CDS). The 5Y CDS, an indication of foreign investors’ perception of Lebanon’s default risk, attained an unprecedented high of 1,388 basis points (bps), up from 870 bps in early July. The upward trend of the 5Y CDS can be attributed to the increased tension between Israel and Hezbollah over the period, in addition to the USA’s sanctioning of Jammal Trust Bank.

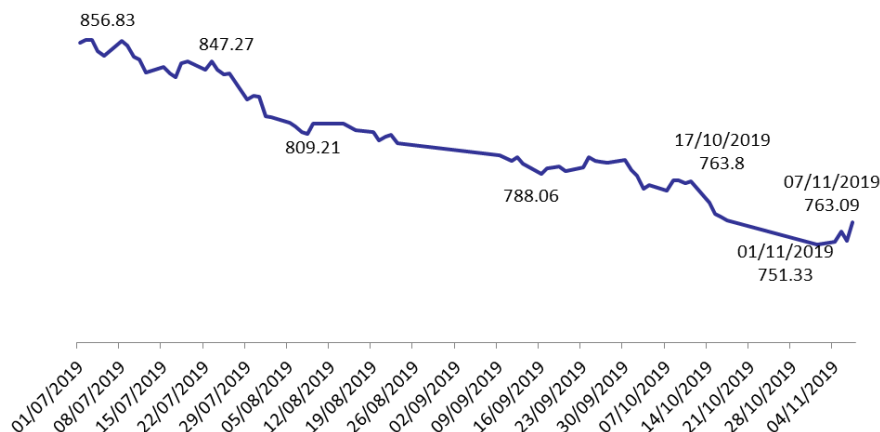
The 5Y CDS continued to rise during H2, recording a substantial uptick upon the onset of the October 17th protests. In details, the 5Y CDS rose by 139 bps by mid-October to close at 1,318 bps on October 22nd, one day after the Lebanese PM Hariri announced a list of aggressive reforms aiming to ease the protests’ momentum. Furthermore, the PM’s resignation submitted on October 29th sky-rocketed the 5Y CDS to highs of 1,588 bps by October 30th, up by 246 bps overnight.

Meanwhile, the perception of investors was further pulled down, as Moody’s report released on 06.11.2019 downgraded Lebanon to Caa2 from Caa1. The rating also remains on review for further downgrade. Moody’s justifies that its recent action reflects, *“the increased likelihood of a debt rescheduling or other liability management exercise that may constitute a default under Moody’s definition”*.

As for the country’s equity index, the impact of protests remained constrained on the Blom Stock index (BSI). The sensitivity of the BSI to the latest developments was much lower than that of the international appetite for Lebanese Eurobonds. The BSI fell by 10.9% since end-June 2019 to 763.1 points by November 07th. Beirut Stock Exchange (BSE) suspended trading starting October 18th in-line with the wave of demonstrations in the country, and only resumed its activity on November 01st 2019. In fact, the BSI slipped by 1.63% from 763.8 points on October 17th (the last trading day before the protests) to stand at 751.3 points on November 01st when trading was resumed. And by

November 07th, the BSI picked up by 1.57% to 763.1 points. In turn, the market capitalization fell from \$7.5B to \$7.3B over the same dates.

Blom Stock Index



The Lebanese equity market is mainly composed of local investors. These trade on the Beirut Stock exchange (BSE), given the Lebanese bourse listing includes national-regional banks and companies. Nonetheless, some international investors interested in Lebanese securities continued to trade Global depository receipts (GDR) on the London Stock exchange, where BLOM, Audi, and Byblos banks have GDR shares listed.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss,
Weygand Str. POBOX 11-1540
Riad El Soloh Beirut 1107 2080
Lebanon

Rouba Chbeir, Economist

rouba.chbeir@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.