

Lebanese Bonds Decline Amid Political Divisions, IMF Challenges, and Geopolitical Tensions



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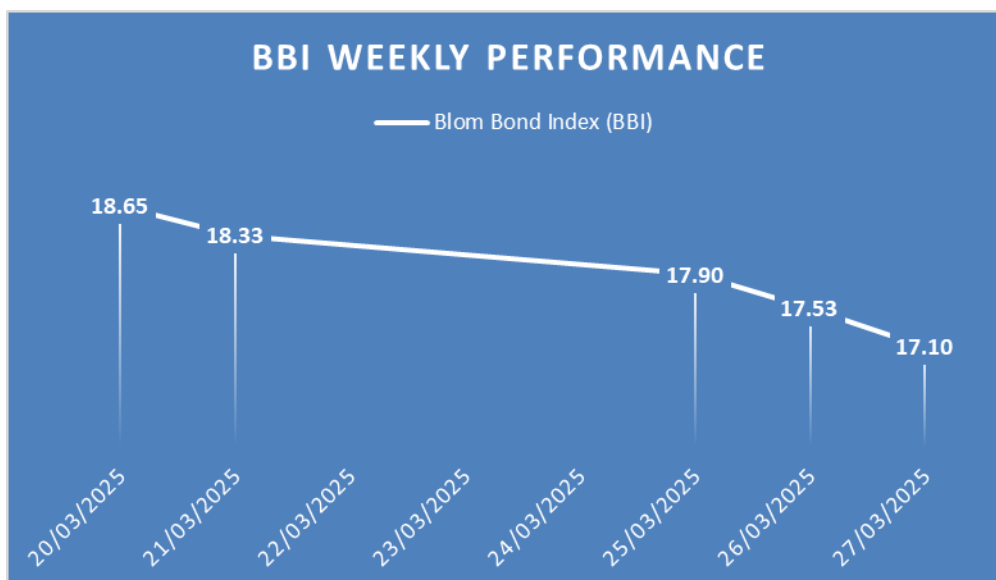
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| | 27/03/2025 | 20/03/2025 | Change | Year to Date |
|------------------------------|------------|------------|--------|--------------|
| BLOM Bond Index (BBI) | 17.10 | 18.65 | -8.33% | 28.68% |
| Weighted Yield | 95.57% | 88.95% | 7.43% | -7.72% |
| Weighted Spread | 9,134.93 | 8,473.95 | 7.80% | -7.99% |

The BLOM Bond Index (BBI), which tracks Lebanese government Eurobonds (excluding coupon payments), fell sharply by 8.33% in the week ending 27 March 2025 to 17.1 points.



As illustrated in the chart above, the BBI experienced a consistent decline throughout the past week, driven by several key factors.

Firstly, optimism surrounding local politics began to fade amid increasing government divisions over major decisions. Most notably, the appointment of Karim Souaid as the new Banque Du Liban (BDL) governor stirred significant debate among council ministers. Souaid secured 17 out of 24 votes, revealing the fractured decision-making process. While his appointment was finalized after bond prices were released, markets had already reacted to the political uncertainty surrounding his candidacy.

Following the election, Prime Minister Nawaf Salam voiced his reservations about Souaid's appointment, citing his commitment to protecting depositors' rights and preserving state assets as central concerns. Salam urged the new governor to engage with the IMF and align with the government's mission statement. Additionally, he announced the approval of a draft law aimed at amending banking secrecy regulations—an important step toward reform. Although Souaid had previously opposed such measures, the move signals a possible compromise between the two, reflecting a shared effort to prioritize Lebanon's financial future. Despite the challenges and divisions, the appointment of a new central bank governor marks a step forward, providing a sense of direction and an opportunity to address Lebanon's pressing financial issues.

Secondly, IMF spokesperson Julie Kozack emphasized that Lebanon requires a comprehensive strategy for rebooting its economy and greater data transparency to secure an IMF program. This signals that Lebanon's economic recovery may face significant challenges and delays, which undermines investor confidence.

Thirdly, geopolitical tensions remain unresolved, with continued breaches of the ceasefire agreement by Israel adding another layer of uncertainty. Add to this the general uncertainty that pervades the world and regional economies.

This comes despite the appointment of Houlihan Lokey as a financial adviser to negotiate with the Lebanese government on Eurobonds restructuring. This move signals progress in restructuring negotiations.

When bond prices go down, yields go up. Consequently, the yield on 5-year bonds rose by 600 basis points to 95%, and the yield on 10-year bonds increased by 390 basis points to 67.3% this week.

| | 27/03/2025 | 20/03/2025 | Change |
|-----------------------|------------|------------|--------|
| JP Morgan EMBI | 916.46 | 924.59 | -0.88% |
| 5Y LEB | 95.00% | 89.00% | 600 |
| 10Y LEB | 67.30% | 63.40% | 390 |
| 5Y US | 4.09% | 4.01% | 8 |
| 10Y US | 4.38% | 4.34% | 4 |
| 5Y SPREAD | 9,091 | 8,499 | 592 |
| 10Y SPREAD | 6,292 | 5,906 | 386 |

Similarly, in the U.S., treasury yields marginally increased this week by 8 basis points for 5-year bonds and 4 basis points for 10-year bonds, settling at 4.09% and 4.38%, respectively. This uptick reflects rising inflation but comes during a time of economic uncertainty.

The Federal Reserve adjusted its inflation forecast upward, driven by concerns about the impact of tariffs. Trade tensions are escalating, with new U.S. tariffs poised to take effect next week, raising concerns about potential economic harm and inflationary pressures. President Trump announced a 25% tariff on imported cars, effective April 2, and warned of even higher tariffs on Canada and the EU if they act against US interests.

Traders are now pricing in an 11.6% probability of a quarter-point rate cut at the Federal Reserve's May meeting, while assigning an 88.4% likelihood to no change, according to the CME Group's FedWatch tool.

| TARGET RATE (BPS) | NOW* | 1 DAY 26 MAR 2025 | 1 WEEK 21 MAR 2025 | 1 MONTH 28 FEB 2025 |
|--------------------------|-------|----------------------|-----------------------|------------------------|
| 375-400 | 0.0% | 0.0% | 0.0% | 2.2% |
| 400-425 | 11.6% | 12.2% | 14.3% | 31.1% |
| 425-450 (Current) | 88.4% | 87.8% | 85.7% | 66.7% |

5Y Credit Default Swaps (CDS)

| | 27/03/2025 | 20/03/2025 |
|--------|------------|------------|
| KSA | 70.27 | 69.47 |
| Dubai | 63.58 | 64.17 |
| Brazil | 186.43 | 192.63 |
| Turkey | 293.25 | 261.05 |

Source: Bloomberg

| Maturity | Coupon in % | Prices | | Weekly Change | Yields | | Weekly Change bps |
|------------|-------------|------------|------------|------------------|------------|------------|----------------------|
| | | 27/03/2025 | 20/03/2025 | | 27/03/2025 | 20/03/2025 | |
| 28/11/2026 | 6.6 | 16.475 | 18.019 | -8.57% | 166.28% | 153.70% | 1,257.69 |
| 23/03/2027 | 6.85 | 16.514 | 18.03 | -8.41% | 139.30% | 129.47% | 983.08 |
| 29/11/2027 | 6.75 | 16.517 | 18.028 | -8.38% | 103.10% | 96.41% | 668.50 |
| 03/11/2028 | 6.65 | 16.49 | 17.939 | -8.08% | 79.55% | 74.76% | 478.56 |
| 26/02/2030 | 6.65 | 16.475 | 17.992 | -8.43% | 63.21% | 59.35% | 386.07 |
| 22/04/2031 | 7 | 16.568 | 17.962 | -7.76% | 56.60% | 53.30% | 330.28 |
| 23/03/2032 | 7 | 16.519 | 18.032 | -8.39% | 52.83% | 49.44% | 338.35 |
| 02/11/2035 | 7.05 | 16.572 | 17.94 | -7.63% | 45.41% | 42.46% | 294.89 |
| 23/03/2037 | 7.25 | 16.52 | 18.008 | -8.26% | 45.56% | 42.20% | 335.54 |

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