

Lebanese Eurobonds Rally Amid Ceasefire, Despite Hezbollah's Resistance to Disarmament



BLOMINVEST
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	03/07/2025	26/06/2025	Change	Year to Date
BLOM Bond Index (BBI)	19.66	18.77	4.76%	47.96%
Weighted Yield	97.64%	99.96%	-2.32%	-5.71%
Weighted Spread	9,338.73	9,578.82	-2.51%	-5.94%

The **BLOM Bond Index (BBI)**, which tracks Lebanese government Eurobonds (excluding coupon payments), **rose by 4.76% in the week ending 3 July 2025 to 19.66 points.**

The upward momentum reflected continued geopolitical relief, as markets responded positively to the 24 June ceasefire between Iran and Israel following 12 days of regional conflict. The agreement significantly reduced tensions across the Middle East, supporting the rebound in Lebanese Eurobonds.

Meanwhile, attention is turning to diplomacy, with Lebanon preparing a formal response to a U.S. proposal concerning Hezbollah's disarmament and Israeli de-escalation. The proposal—delivered by U.S. envoy Tom Barrack—links Israeli military withdrawal and reconstruction aid to the handover of weapons by Hezbollah and other armed factions, particularly north of the Litani River. While Hezbollah has firmly rejected the terms, calling them a strategic threat, the government's intensive consultations ahead of Barrack's return reflect a growing willingness to engage constructively. President Joseph Aoun, advocating a consensus-based resolution, emphasized the need for dialogue over coercion.

On the economic front, Finance Minister Yassine Jaber said that the banking sector restructuring law will be approved “before the end of the current month.” The statement followed his meeting with Central Bank Governor Karim Souaid, during which several key financial issues were discussed. Although Cabinet had already approved the draft law on April 12—a critical condition for securing IMF support—providing a concrete timeline helped reassure investors, contributing to recent Eurobond gains.

From a market perspective, Prime Minister Nawaf Salam's reaffirmation on Wednesday of the government's intent to reach an agreement with the IMF was interpreted as a constructive signal of policy continuity and reform commitment—key factors watched closely by Eurobond investors.

When bond prices go up, yields go down. Consequently, the yield on 5-year bonds fell by 240 basis points to 94.6%, and the yield on 10-year bonds declined by 190 basis points to 64.1% this week.

	03/07/2025	26/06/2025	Change
JP Morgan EMBI	950.27	943.25	0.74%
5Y LEB	94.60%	97.00%	-240
10Y LEB	64.10%	66.00%	-190
5Y US	3.94%	3.79%	15
10Y US	4.35%	4.26%	9
5Y SPREAD	9,066	9,321	-255
10Y SPREAD	5,975	6,174	-199

In contrast, in the U.S., Treasury yields climbed this week, with 5-year and 10-year bonds rising by 15 and 9 basis points, respectively, settling at 3.94% and 4.35%. The June U.S. nonfarm payrolls report revealed a 147,000-job increase, comfortably exceeding the 110,000 forecast by economists polled by Reuters, and was accompanied by an upward revision to May's figure. Additionally, the unemployment rate unexpectedly declined to 4.1% in June from 4.2% in May, countering expectations of an increase to 4.3%, as projected by Reuters' poll. These indicators reinforced the Federal Reserve's cautious stance on monetary easing, suggesting that persistent employment strength could delay the timing of rate cuts.

On the political front, President Donald Trump's "One Big Beautiful Bill," passed on July 3 by the US House of Representatives, is projected to widen the U.S. fiscal deficit by over \$3 trillion over the next decade. To accommodate the increase in federal borrowing, the debt ceiling will be lifted by \$5 trillion. This development carries immediate implications for fixed income markets. It is expected to increase bonds issuance, placing downward pressure on prices as markets absorb the additional volume. In addition, investors may demand higher yields to compensate for the elevated risk associated with the growing U.S. debt burden.

Meanwhile, traders were also keeping a close eye on trade negotiations, as the White House escalated its tariff strategy. President Trump announced that letters setting unilateral tariff rates will be sent starting today Friday to multiple trade partners, with duties expected to take effect by August 1. The move comes ahead of the July 9 tariff negotiation deadline, prompting intensified efforts to secure bilateral deals. The administration signaled tariffs ranging from 10% to as high as 70% in some cases. While agreements have already been reached with the U.K. and Vietnam, and a truce with China is in place, the administration's aggressive posture reignited concerns over disruptions to global trade flows. For bond markets, the announcement added to policy uncertainty, leading investors to reprice both geopolitical and trade-related risks into yield expectations, particularly amid the threat of retaliatory measures.

These developments have led some analysts to reconsider the likelihood and timeline of rate cuts. According to the CME Group's FedWatch tool, traders are now assigning a 95.3% probability that the Federal Reserve will hold rates steady at its July meeting—up from 81.4% a week earlier. In contrast, the odds of a 25-basis point cut have dropped to just 4.7%.

Target Rate (bps)	Probability(%)			
	Now *	1 Day 3-Jul-25	1 Week 27-Jun-25	1 Month 4-Jun-25
375-400	0.00%	0.00%	0.00%	1.00%
400-425	4.70%	6.20%	18.60%	28.50%
425-450 (Current)	95.30%	93.80%	81.40%	70.50%
* Data as of 4 Jul 2025 03:50:27 CT				

5Y Credit Default Swaps (CDS)		
	03/07/2025	26/06/2025
KSA	67.08	71.68
Dubai	64.27	64.23
Brazil	143.20	155.23
Turkey	255.15	280.40
Source: Bloomberg		

Maturity	Coupon in %	Prices		Weekly Change	Yields		Weekly Change bps
		03/07/2025	26/06/2025		03/07/2025	26/06/2025	
28/11/2026	6.6	18.912	18.195	3.94%	183.86%	186.66%	(280.08)
23/03/2027	6.85	18.953	18.117	4.61%	145.62%	148.77%	(315.07)
29/11/2027	6.75	18.975	18.117	4.74%	103.55%	106.28%	(273.21)
03/11/2028	6.65	18.955	18.135	4.52%	76.95%	78.99%	(204.21)
26/02/2030	6.65	19.021	18.117	4.99%	59.41%	61.26%	(185.57)
22/04/2031	7	19.022	18.144	4.84%	52.52%	54.23%	(170.81)
23/03/2032	7	19.025	18.123	4.98%	48.37%	50.05%	(167.39)
02/11/2035	7.05	19.019	18.149	4.79%	40.75%	42.33%	(158.12)
23/03/2037	7.25	19.011	17.908	6.16%	40.31%	42.42%	(211.30)

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