Lebanese Eurobonds Slide as Disarmament Stalls, Despite FATF-Driven Reforms

BLOMINVEST BANK

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	17/07/2025	10/07/2025	Change	Year to Date
BLOM Bond Index (BBI)	19.27	20.15	-4.33%	45.01%
Weighted Yield	101.12%	96.80%	4.47%	-2.36%
Weighted Spread	9,686.13	9,256.26	4.64%	-2.44%

The **BLOM Bond Index (BBI)**, which tracks Lebanese government Eurobonds (excluding coupon payments), fell by **4.33%** in the week ending **17 July 2025**, closing at **19.27 points**.

The decline reflects fading optimism from the Israel-Iran ceasefire and renewed investor anxiety over Lebanon's unresolved security challenges. The debate over disarming foreign-backed forces—chiefly Hezbollah—remains stalled, with the Lebanese state failing to articulate a credible mechanism or timeline for asserting its monopoly over arms. Despite **US Ambassador Tom Barrack**'s call for full disarmament by year-end, and the **UN Special Coordinator for Lebanon Jeanine Hennis-Plasschaert**'s urgent appeal for a "clearly articulated roadmap with timelines", Beirut has yet to move beyond vague commitments. While the **Lebanese Armed Forces (LAF)** have made notable progress, both **US and UN officials** stress that more progress is needed.

Compounding concerns, a recent *Wall Street Journal* report indicates that **Iran is actively working to rearm its militia allies across the region, including Hezbollah**. Syria's new government has intercepted multiple weapons shipments—such as Grad rockets and Russian-made Kornet missiles—along its borders with Lebanon. Although the fall of the Assad regime has disrupted Iran's arms pipeline, Hezbollah has adapted by restructuring its smuggling networks and locally manufacturing drones and medium-range rockets. These developments underscore the fragility of Lebanon's security environment and add pressure to Eurobond valuations.

Against this backdrop of mounting security risks, **regulatory momentum picked up.** The Central Bank of Lebanon (BDL) issued **Basic Circular 170**, prohibiting dealings with Hezbollah-affiliated Al-Qard Al-Hassan, amid US pressure to curb illicit finance. The measure—highlighted in a recent article—aims to address **FATF** concerns over unlicensed financial institutions. BDL also signed an agreement with **K2 Integrity**, a US-based firm specializing in risk management, compliance, and financial investigations, to tackle the cash economy and advance Lebanon's removal from the FATF grey list. These steps signal a shift toward regulatory tightening, though their impact will depend on sustained implementation and political will.

When bond prices go down, yields go up. Consequently, the yield on 5-year bonds rose by 320 basis points to 97%, and the yield on 10-year bonds increased by 190 basis points to 65.2% this week.

	17/07/2025	10/07/2025	Change
JP Morgan EMBI	943.53	949.40	-0.62%
5Y LEB	97.00%	93.80%	320
10Y LEB	65.20%	63.30%	190
5Y US	4.01%	3.93%	8
10Y US	4.47%	4.35%	12
5Y SPREAD	9,299	8,987	312
10Y SPREAD	6,073	5,895	178

Similarly, in the U.S., Treasury yields climbed this week, with 5-year and 10-year bonds rising by 8 and 12 basis points, respectively, settling at 4.01% and 4.47%.

This upward movement was largely driven by stronger-than-expected economic data, which reinforced investor confidence in the resilience of the U.S. economy. Jobless claims for the week ending July 12 fell to 221,000, a 7,000 drop from the prior week, signaling continued labor market strength. Meanwhile, retail sales rose by 0.6% monthly in June—triple the pace anticipated by Dow Jones consensus—suggesting robust consumer demand.

Political developments also contributed to market stability, particularly President Donald Trump's denial of imminent plans to dismiss Federal Reserve Chair Jerome Powell. Although reports earlier in the week, citing a senior White House official, suggested Trump was leaning toward firing Powell following encouragement from House Republicans, the president later tempered expectations, stating the move was "highly unlikely" unless fraud were involved—thus easing concerns over potential disruptions to monetary policy leadership. Powell's continued tenure reinforces expectations that interest rates will remain unchanged for now, or will not change markedly.

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 97.4% probability that the Federal Reserve will hold rates steady at its July meeting—up from 94.8% a week earlier. In contrast, the odds of a 25-basis point cut have dropped to just 2.6%.

Target Rate (bps)	Probability(%)			
	Now *	1 Day 16-Jul-25	1 Week 11-Jul-25	1 Month 18-Jun-25
375-400	0.00%	0.00%	0.00%	0.30%
400-425	2.60%	4.10%	5.20%	12.50%
425-450 (Current)	97.40%	95.90%	94.80%	87.20%
* Data as of 18 Jul 2025 12:46:16 CT				

5Y Credit Default Swaps (CDS)		
	17/07/2025	10/07/2025
KSA	62.10	63.09
Dubai	56.93	59.42
Brazil	147.33	147.58
Turkey	256.59	249.62
Source: Bloomberg		

		Prices		Weekly	Yields		Weekly
Maturity	Coupon in %	17/07/2025	10/07/2025	Change	17/07/2025	10/07/2025	Change bps
28/11/2026	6.6	18.59	19.409	-4.22%	192.35%	182.93%	942.05
23/03/2027	6.85	18.58	19.413	-4.29%	151.60%	144.79%	680.84
29/11/2027	6.75	18.56	19.396	-4.31%	106.74%	102.65%	409.01
03/11/2028	6.65	18.564	19.417	-4.39%	78.81%	76.01%	280.30
26/02/2030	6.65	18.568	19.472	-4.64%	60.81%	58.62%	218.86
22/04/2031	7	18.609	19.511	-4.62%	53.55%	51.67%	188.79
23/03/2032	7	18.706	19.507	-4.11%	49.14%	47.57%	156.63
02/11/2035	7.05	18.688	19.482	-4.08%	41.38%	39.98%	139.97
23/03/2037	7.25	18.597	19.465	-4.46%	41.12%	39.52%	159.53

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