Eurobonds Slip as Hezbollah Resists Disarming; Parliament Passes Banking Restructuring Law

BLOMINVEST BANK

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	31/07/2025	24/07/2025	Change	Year to Date
BLOM Bond Index (BBI)	19.18	19.28	-0.51%	44.36%
Weighted Yield	103.66%	102.11%	1.52%	0.10%
Weighted Spread	9,939.17	9,784.18	1.58%	0.11%

The **BLOM Bond Index** (BBI), which tracks Lebanese government Eurobonds (excluding coupon payments), **fell by 0.51% in the week ending 31 July 2025 to 19.18 points**.

This latest decline comes amid mounting U.S. pressure on Lebanon to issue a formal cabinet decision committing to the disarmament of Hezbollah before ceasefire negotiations with Israel can resume. According to five sources cited by Reuters, Washington has made clear that talks on halting Israeli military operations hinge on Beirut's willingness to take concrete steps toward disarmament.

While Hezbollah's weakening has supported Eurobond prices earlier this year—raising investor hopes for eventual disarmament—the group's continued resistance to hand over its weapons now risks reigniting internal tensions, potentially driving Eurobond prices further lower.

On Wednesday, Hezbollah chief Naim Qassem publicly rejected such calls. The following day, Lebanese President Joseph Aoun reiterated his position that Hezbollah must hand over its weapons to the army, signaling a widening gap between the group and the state.

In his speech, Aoun revealed that Lebanon had proposed modifications to U.S.-submitted “ideas” on disarmament and that a cabinet meeting next week would discuss a plan to establish a timeline for execution. The Lebanese proposal reportedly includes an “immediate cessation of Israeli hostilities” in Lebanon—including airstrikes and targeted killings—a full Israeli withdrawal from the south, and the release of Lebanese prisoners held in Israel. These developments come ahead of a deadline set by U.S. envoy Tom Barrack, who has been leading diplomatic efforts to broker a resolution.

However, on that same day, the Israeli military launched a massive series of airstrikes across several areas in Lebanon, marking yet another breach of the ceasefire agreement reached last November. The timing and intensity of the strikes have further undermined investor confidence in Lebanon’s ability to deliver on security guarantees and political commitments.

On the economic front, the Lebanese Parliament has approved on Thursday the long-pending banking sector restructuring law, largely adopting the Finance and Budget Committee’s draft. Crucially, its implementation remains contingent on the approval of a separate draft law that addresses the country’s financial gap.

This move carries significant implications for Lebanon’s financial markets—particularly the Eurobond market—given that banking restructuring is a core condition of the IMF agreement. The anticipated restructuring of Lebanon’s Eurobonds hinges on progress in both laws. We will examine the banking restructuring law and its market impact in an upcoming spotlight.

While the law’s passage on Thursday is expected to support Eurobonds prices next week, investor focus will also turn to Tuesday’s scheduled meeting, which could further influence the trajectory of Eurobond valuations.

When bond prices go down, yields go up. Consequently, the yield on 5-year bonds rose by 100 basis points to 98.9%, and the yield on 10-year bonds increased by 40 basis points to 66.1% this week.

	31/07/2025	24/07/2025	Change
JP Morgan EMBI	957.50	951.71	0.61%
5Y LEB	98.90%	97.90%	100
10Y LEB	66.10%	65.70%	40
5Y US	3.96%	3.98%	-2
10Y US	4.37%	4.43%	-6
5Y SPREAD	9,494	9,392	102
10Y SPREAD	6,173	6,127	46

In contrast, in the U.S., Treasury yields declined modestly this week, with the 5-year and 10-year notes falling by 2 and 6 basis points to 3.96% and 4.37%, respectively.

The Federal Reserve kept its policy rate unchanged at 4.25%–4.5%, resisting pressure from President Trump to initiate rate cuts.

June's PCE Price Index rose 2.6% year-on-year (YoY), the fastest pace in four months and above the 2.5% forecast from economists polled by Dow Jones, reinforcing inflation risk.

Yet strong Q2 GDP growth of 3% YoY and a resilient labor market—with unemployment still near historic lows—supported the Fed's decision to maintain its mildly restrictive stance.

Chair Powell emphasized the unemployment rate as the key policy anchor, with investor focus now shifting to the July jobs report for further labor market validation.

Meanwhile, Trump's announcement of a 10% global tariff, steep reciprocal duties of up to 41%, and a 40% levy on transshipped goods (Goods rerouted through low-tariff countries to bypass U.S. duties) added trade-related uncertainty. While these measures have introduced inflationary risks, they have not significantly altered expectations for near-term Fed action, keeping yields broadly contained as markets remain wary of Trump's repeated reversals on tariff policy.

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 60.8% probability that the Federal Reserve will hold rates steady at its September meeting—up from 35.5% a week earlier. In contrast, the odds of a 25-basis point cut dropped to 39.2%.

Target Rate (bps)	Probability(%)			
	Now *	1 Day 30-Jul-25	1 Week 25-Jul-25	1 Month 1-Jul-25
375-400	0.00%	1.00%	2.60%	18.50%
400-425	39.20%	46.70%	61.90%	73.20%
425-450 (Current)	60.80%	52.40%	35.50%	8.30%
* Data as of 1 Aug 2025 01:46:38 CT				

5Y Credit Default Swaps (CDS)		
	31/07/2025	24/07/2025
KSA	61.20	62.04
Dubai	54.91	58.69
Brazil	149.72	146.07
Turkey	246.10	244.63
Source: Bloomberg		

Maturity	Coupon in %	Prices 31/07/2025	24/07/2025	Weekly Change	Yields 31/07/2025	24/07/2025	Weekly Change bps
28/11/2026	6.6	18.502	18.61	-0.58%	199.62%	195.37%	424.55
23/03/2027	6.85	18.503	18.611	-0.58%	156.19%	153.42%	277.26
29/11/2027	6.75	18.51	18.611	-0.54%	108.58%	107.33%	124.60
03/11/2028	6.65	18.504	18.607	-0.55%	79.77%	79.07%	69.98
26/02/2030	6.65	18.513	18.619	-0.57%	61.36%	60.90%	45.57
22/04/2031	7	18.516	18.625	-0.59%	53.96%	53.63%	33.51
23/03/2032	7	18.536	18.634	-0.53%	49.64%	49.36%	27.75
02/11/2035	7.05	18.541	18.674	-0.71%	41.69%	41.42%	26.42
23/03/2037	7.25	18.557	18.525	0.17%	41.24%	41.28%	(3.72)

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