

MENA Review and Quarterly Outlook

BLOMINVEST Views on Regional Economic and Financial Developments for Q2 2014

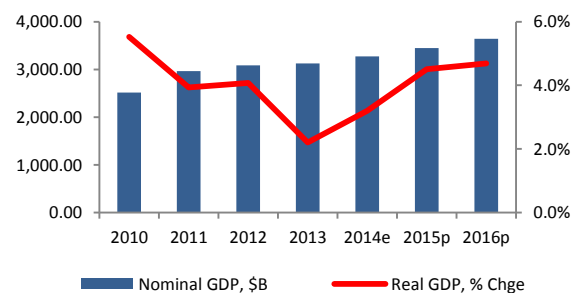
View of the Quarter

Once again, a strengthening global demand for oil in the second quarter of 2014 fueled economic growth in the MENA's oil exporting countries that remained shielded to the waves of violence and insecurity overshadowing the MENA's oil importing countries. Securing a robust private sector performance, **Saudi Arabia** focused on social reforms and preservation of its position as a valve of the MENA's political and economic developments. In **Qatar**, concerns of the state losing the hosting right of the 2022 World Cup topped the news jeopardizing the encouraging economic outlook of the country in the coming years. The **United Arab Emirates'** (UAE) economy finally recovered Dubai crisis of 2009 thanks to the promising performance of real estate, tourism and trade sectors that were boosted by the Emirates winning the right to host the World Expo 2020. Meanwhile, oil-importing countries were striving to resolve their basic political and economic problems. Starting with the most populous country in the MENA, **Egypt's** journey under Al-Sisi mandate started and was characterized by structural economic reforms and a relative period of stability that followed series of political and security developments. **Syria's** civil war continued amid the controversial re-election of Al-Assad and was the main barometer of the regional stability and the socio-economic conditions of its neighboring countries. The Syrian economy preserved its shaky position in Q2 2014 with an ongoing decline in oil production and most economic sectors posting steep losses. Spillovers of the enduring stalemate between the regime forces and the opposition in Syria widely affected the Lebanese and Jordanian economies. **Lebanon's** economy failed to show strong signs of improvement, burdened by the presence of more than 1.1M registered Syrian refugees besides the continuous presidential vacuum and the wage scale dilemma. As for **Jordan**, the kingdom was undergoing threatening instabilities on the Iraqi border while trying to install the basic economic principals required by the International Monetary Fund (IMF) under the \$2.00B loan-agreement.

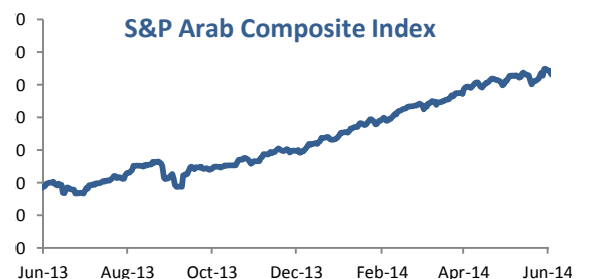
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MENA GDP Indicators



S&P Arab Composite Index

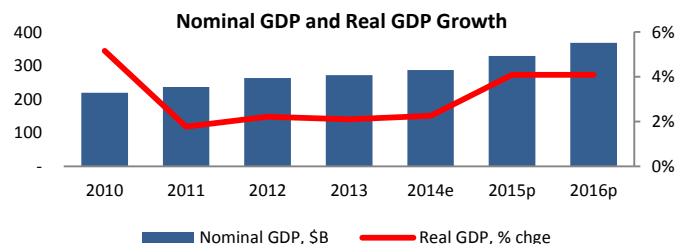


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Egypt Macro and Equity Market

Numerous Economic Reforms to Get Egypt Back on Track

Key Macroeconomic and Equity Market Indicator



Shortly after his inauguration, President Abdel Fattah Al-Sisi pursued a challenging reform agenda to restore the ailing security and address several pending economic issues. Egypt's president adopted a personal approach to address its public and gain its confidence. "Long Live Egypt Fund" was launched to support Egypt's economy through donations and Al Sisi declared that he would donate half of his salary to the country. On a different note, the former army chief faced in H1 of 2014 the opposition of the Muslim Brotherhood and the security turbulences in which they were partly involved. In addition, an international outrage followed the judiciary verdict against Al-Jazeera's three journalists which was denounced as a blow of freedom of expression.

As expected, the stabilization of the political situation and the progress in economic activity sent the real Gross Domestic Product (GDP) growth to 2.50% over the period Jan-March 2014 compared to the 1.04% and 1.44% registered in the previous 2 quarters. According to officials, the pickup was the result of respective rises in manufacturing and construction activities. The International Monetary Fund (IMF) estimated real GDP growth for 2014 at 2.26% and projected a recovery to 4.09% in 2015, still below the 5.51% growth rate recorded in 2010. Annual inflation remained subdued at 8.20% in June 2014 with the IMF projecting 2014's average level at 10.7% especially after increasing taxes on cigarettes and alcoholic beverages and removing subsidies on electricity and fuel.

As one of the fastest shipping route between Europe and Asia, the Suez Canal was one of the few sources of income for Egypt during the restless period that started in 2011. Expansion projects are to be launched shortly to turn the Canal into a trading hub. Revenues amounted for \$4.00B during July 2013-March 2014 compared to \$3.78B in the same previous period.

After being a touristic destination for decades, the political crisis and the local insecurity pushed the influx of tourists away from Egypt. Around 30 countries issued travel warnings against Egypt sending tourists' numbers to 3.64M by May 2014 compared to 4.94M in the first five months of 2013. Tourists' nights also went down by 35.6% y-o-y to 36.79 nights by May 2014 with the visitor's average stay shedding 12.7% y-o-y to stand at 10.10 nights. Accordingly, the ministry of tourism launched "We miss you" campaign to revive the fading tourism revenues that fell from \$4.4B in H1 2013 to stand around \$3.00B this year. The Central Bank of Egypt also backed credit facilities given to the sector to support touristic activities offered by hotels, resorts, travel agencies, land transport and restaurants.

The Egyptian hospitality sector also suffered from the shaky situation and the heightening operational costs due to the newly imposed taxes and the rise in petroleum prices. However, hotel occupancy rates in Cairo and Sharm EL Shaikh fell 1 percentage point (p.p) and 8 p.p to 29% and 53% in H1 2014 with the average room rates slipping by 2.5% and 4.5% to \$81 and \$47, respectively. Cairo Hotels suffered a 7.4% yearly loss in room yields by June 2014 to \$24, while those in Sharm el Shaikh lost 17.0% y-o-y to \$25.

As for the country's external position, Egypt's balance of payments showed positive performance with a \$2.2B overall surplus during July 2013- March 2014 compared to the \$2.1B deficit recorded in July 2012-March 2013. The net inflow of Foreign Direct Investments (FDI) also edged up by \$1.1B over the same period to \$4.7B on higher net inflow from the oil sector and a marginal increase in net Greenfield investments. Trade deficit also followed the same positive trend and narrowed by 1.5% y-o-y to \$25.18B on higher exports (+4.2% y-o-y), mainly of petroleum products, outpacing the slight 0.8% yearly increase in imports.

On the fiscal front, President Al-Sisi approved the state budget for the fiscal year (FY) 2014/2015 after several adjustments on the draft. The main concern of Al-Sisi was reducing the debt to 74.5% of GDP by the FY 2017/2018, noting that the latter constituted around 82.9% of GDP between July 2013 and March 2014. Efforts were made to cut off public expenditures by reducing petroleum subsidies and rising electricity prices, with the aim of trimming the budget deficit to 10% of GDP. In this context, the overall fiscal revenues surged by 32% y-o-y to \$45.30B during July 2013-March 2014, while total fiscal expenses following at a slower pace of 10% to \$65.37B. Setting the maximum wage for state employees at \$5,880 per month (which is 35 times the \$168 minimum wage) and imposing a 5% temporary tax on incomes exceeding \$140,000 were also some of the economic measures enforced under the rule of Al-Sisi.

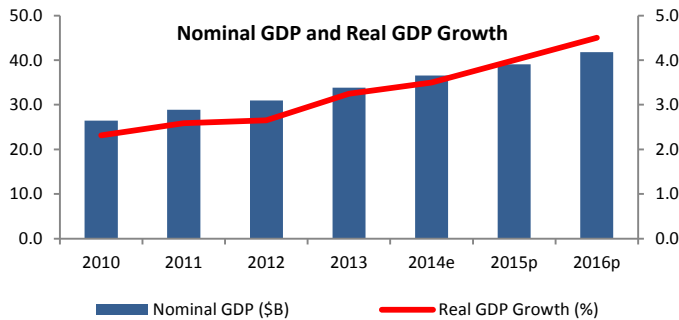
On the monetary front, the Central Bank decided, for the first time since March 2013, to raise key interest rates, in an attempt to curb the inflation that might arise after cutting subsidies on fuel and electricity. Net foreign reserves rose from \$14.94B in June 2013 to \$16.69B in June this year. Total deposits (including government deposits) jumped 20.0% y-o-y in May 2014 to \$196.47B, while total lending inched up by 6.4% y-o-y to \$80.62B.

Investors' improving confidence managed in reversing the previous bearish trend on the Egyptian bourse. In this context, Egypt index surged 71.8% y-o-y during Q2 of 2014 to close at 8,162.2 points. Despite the ratification of the tax on capital gains and monetary dividends earned on the stock market, the average daily volume traded reached 248.00M shares worth \$115.72M in Q2 2014, up from 71.19M shares worth \$47.28M recorded a year earlier. Market capitalization stood at \$66.66B up from \$45.04B in June 2013 with the number of transactions posting a twofold increase in Q2 2014 to 1.69M.

Jordan Macro and Equity Market

A steadfast Economic Recovery slowed down by Regional headwinds

Key Macroeconomic and Equity Market Indicators



While the Jordanian Kingdom was handling the flux of Syrian refugees, waves of terrorism started to surface on the Iraqi border. Regional security uprisings are the main challenges that the Jordanian government is facing to control the development of extremist movements in the region. Other pressing matters were the chronic Jordanian water scarcity that deepened with refugees' number increasing and the ongoing 3-Year disruptions in gas inflows from Egypt. However, a \$10B agreement with a Russian company was reached to build the first nuclear plant in Jordan that will satisfy the country's needs in electricity and may allow electricity exports to take place.

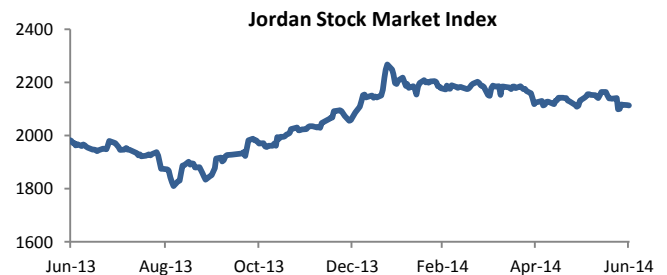
On a positive note, Jordan's Gross Domestic Product (GDP) rose by 3.2% in the first quarter of 2014 compared to 2.6% in the same period last year. The International Monetary Fund (IMF) anticipated growth rate to reach 3.5% in 2014, up from 2.9% in 2013. In this context, Jordan's GDP reached \$3.60B in Q1 2014 compared to \$3.48B in Q1 2013. Inflation was contained to 3.2% between Jan-June 2014 from 6.5% in H1 2013. IMF revised its inflation to 4.4% for 2012 and 4.2% in 2013.

Contrary to expectations, tourism in Jordan managed to improve in the first half of 2014. This was mainly due to the worsening conditions in its neighboring countries turning the kingdom into a safe haven for tourists targeting the Middle East region. Tourism revenues edged up in the first quarter of 2014 by 11.1% y-o-y to \$1.03B, while the number of visitors rose by a yearly 3.1% to hit 932,000. The hospitality sector benefited from the rising number of incomers, as revealed by Ernst and Young's occupancy rate, that reached 66% in the first six months of 2014 compared to 63% by June 2013.

On the external front, trade deficit ended the first four months of 2014 widening by 4.1% to \$4.74B compared to \$4.55B in the same period of 2013. In fact, total exports (including re-exports) went up by 8.1% y-o-y to reach \$2.76B by April 2014, while imports gained 5.5% y-o-y at \$7.50B. Yet, the exports to imports ratio rose from 35.9% to 36.8% by the end of April 2014.

Despite the continuous efforts to stay in line with the IMF requirements regarding the \$2B stand-by arrangement that aimed at fiscal consolidation, the Kingdom saw its fiscal deficit (including foreign grants) broadening from \$391.13M by April 2013 to \$434.28M in the same period this year. The net public debt (domestic and external) constituted 77.9% of GDP or \$28.11B and increased by 4.4% y-t-d by April 2014.

Worth mentioning that Jordan has issued, by the end of June 2014, a 5-Year \$1.00B U.S. guaranteed Eurobonds in New York at a 1.945% interest rate deposited at Jordan Central Bank.



The banking sector kept on posting positive indicators revealing its steadiness and immunity to the regional uprisings. Money supply M2 rose by 9.1% y-o-y to \$39.68B in April 2014 pointing to the increasing level of liquidity in the market. As for credit facilities, they showed an annualized 3.2% progress over the same period to \$26.52B. Additionally, total deposits increased from \$36.95B in April 2013 to reach \$40.52B this year. In details, deposits in Jordanian Dinar (JD) surged 16.3% y-o-y to amount to \$31.58B, while those in Foreign Currencies (FC) retreated in April by a yearly 8.8% to \$8.94B. This indicates an optimistic sentiment amongst depositors in favor of the JD as the Kingdom is showing robust efforts to outpace local and regional challenges in order to meet its economic goals.

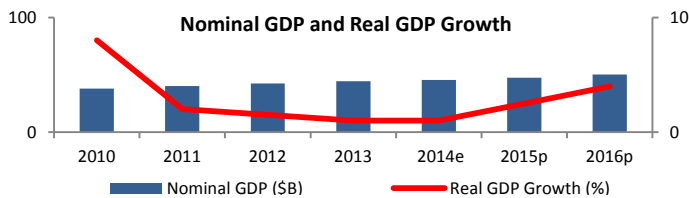
In an encouraging step toward economic growth and job creation, the Central Bank of Jordan cut, by the end of June, interest rates on key monetary policy instruments, the interest rate on overnight deposit window facility and the rate on weekly repurchase agreements by 50 basis points to 2.75% and 3.0%, respectively. The CBJ's decision is expected to improve investments by lowering credit cost.

Amman Stock Exchange saw an improving performance in Q2 2014 with the market's index rising almost 2.3% from December 2013 to 2,113.03 points. As for its y-o-y performance, it widened by 6.7% reflecting investors' optimistic outlook of the Kingdom and its immunity to the neighboring regional developments. The total volume traded reached 1.68B shares worth \$1.16B compared to 1.08B shares valued at \$765.04M in Q1 2013. Market capitalization posted a 1.7% uptick in Q2 2014 to \$26.54B. The number of transactions reached 490,173, up by 9.6% from 764,627 registered by September 2012.

Lebanon Macro and Equity Market

Economic Growth Still Struggling amid Local and Regional Turmoil

Key Macroeconomic and Equity Market Indicators



The second quarter in Lebanon was mostly recognized by the presidential vacuum, civil servants' strikes, and security incidents. On the election front, all of the 8 meetings of the legislature to elect a president were fruitless due to a lack of quorum. On the salary scale issue, public school teachers' and civil servants' strikes were trying to pressure parliament members to approve the salary scale. Each day of strike was estimated to cause the treasury an \$18M loss in tax revenue. The security situation did not help in this regard, as it got a bit disturbed after three explosions occurred at the end of June. Worth mentioning, that Lebanon remained the major host for Syrian refugees which are estimated to reach 1.5M by the end of 2014.

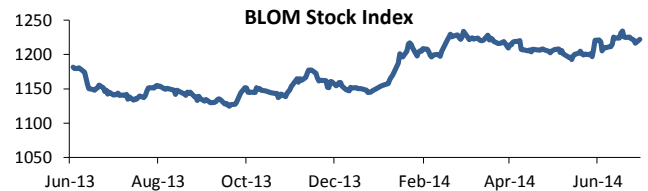
All this led the IMF to decrease its estimates for Lebanon's economic growth to 1.8% in 2014 and 2.5% in 2015. However, the BLOM Purchasing Manager Index increased to an average of 48.5 points in Q2 compared to an average of 45.5 points in Q1, depicting a slower rate of contraction as it remains below the 50 benchmark separating contraction from expansion. Worth mentioning that in June, the PMI registered an eight-month high, reaching 49.1 points, due to output levels and new order intakes decreasing at a slower pace. As for unemployment, the World Bank predicted it would reach 20% by the end of 2014, due to the lack of creation of high quality jobs by the economy and the competition between the Lebanese citizens and Syrian refugees over job opportunities.

Inflation was contained at 2.76%, with the average Consumer Price Index (CPI) in the second quarter of 2014 reaching 101.19 points, compared to 98.47 points in Q2 of 2013. Nevertheless, inflation is predicted to surge if the parliament approves the salary scale.

The real estate sector showed some signs of improvement on both the supply and demand sides. Transactions surged by 13.73% compared to Q1, to reach 18,275 in Q2. Moreover foreigners' share increased from 1.46% in Q1 to 1.50% in Q2. Construction area authorized by permits swelled by 44.74% q-o-q to 4.88M in Q2, with a 32.11% increase in the number of permits to 5,744. Construction was concentrated in Mount Lebanon taking a share of 43.25% of total permits.

Credits to new investments or expansion of existing companies also improved. Kafalat issued 235 guarantees worth \$30.20M in the second quarter of 2014 compared to 208 guarantees worth \$26.80M in the previous quarter, where Mount Lebanon remained the primary region benefitting from 47.23% of total guarantees, and the agricultural sector the major sector gaining a share of 45.53% of the total.

On the other hand, tourism weakened although some of the GCC countries lifted their travel warnings on Lebanon. Airport passengers decreased by 3.8% to reach 2,311,785 by May.



Concomitantly, tourists declined by 9.13% y-o-y to 443,071 by May, and their spending ticked down by an annual 6% during the first half of the year. Hotel occupancy rate in Beirut dropped 7 percentage points to reach 50%, on average, during the first half (H1) of 2014 where the average room rate and revenue per available room declined by 3.73% and 13.98% to \$159, and \$81, respectively.

With regards to the country's external position, despite of the growing trade deficit, Lebanon recorded a surplus of \$215.7M on its balance of payments during H1 of 2014, due to higher capital inflows. Exports plunged by 28.08% to \$1.67B, widening the trade deficit by 1.58% y-o-y to \$8.62B.

Shifting to the fiscal sector, total budget deficit in February reached \$245M up to February, 17.80% more than the same period the previous year, where government revenues and expenditures rose by 8.28% and 4.11% to \$1.69B and \$1.93B, respectively. As for gross public debt, it jumped by 9.48% y-o-y to reach \$65.70B, during the first half of 2014. Downward pressure on government revenues and rising demand for public services due to large Syrian refugee influx still damaged Lebanon's public finances.

On the monetary front, the Central Bank and commercial banks remained adamant to the country's situation. Central bank's total assets grew by 7.58% year on year, to reach \$82.73B end of June, where its foreign assets settled at \$37.07B. Similarly, commercial banks' total assets surged up by 7.95% y-o-y, to reach \$170.45B.

In addition, the central bank governor Riad Salameh, in a conference with the IMF, said that he is considering injecting more money in the economy, after commercial banks used up most of the \$800M offered in credit facilities in 2014. The stimulus mainly targeted the real estate sector with more than 50% of funds reserved for housing loans. This credit enhancement is also being adopted to encourage banks in investing in startups which leads to higher employment and growth.

The Central bank also encouraged consolidation in the banking sector. During the second quarter, Fransabank acquired Ahli bank, talks of mergers occurred between BIT and NECB banks, and CedrusInvest Bank planned to acquire Standard Chartered Bank.

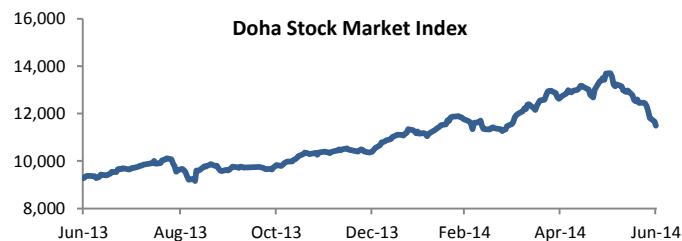
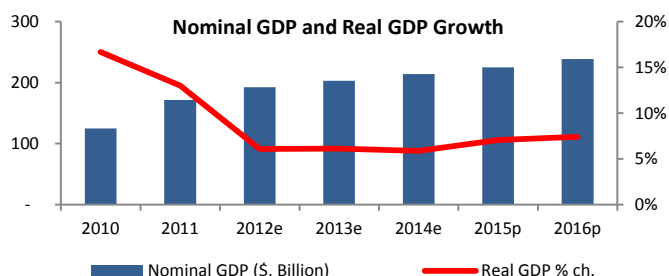
Moving to the financial markets, the BSI edged up by 1.03% q-o-q to 1221.87 points, after hitting its highest value for the year of 1234.30 in June. The average volume of 142,946 shares worth \$1,361,161 was lower than that of the previous quarter of 295,065 shares worth \$2,023,374. Market capitalization augmented from \$9.71B to \$9.79B. Worth mentioning, Riad Salameh advised the Lebanese government to privatize the Beirut Stock Exchange, since this would lead to a better performance and would encourage investments in the private sector.

The Eurobond Market performed also better than the last quarter, where the BBI increased by 1.64% to 108.10 points. 5Y Credit Default Swaps narrowed to 337-367 bps end of June, from last quarter's quote of 375-390 bps.

Qatar Macro and Equity Market

Economic Diversification Continued with Potential Problems on the Medium Term

Key Macroeconomic and Equity Market Indicators



Will Qatar lose the right to host the 2022 World Cup? This question made headlines across the globe as the rich state was plagued with accusations of corruption, poor working conditions for migrant workers and as the feasibility of the event taking place in extremely high temperatures gathered much skepticism. A FIFA investigation has been conducted since sponsors of the event such as Adidas, Sony, Visa, Coca Cola and Hyundai, voiced their concern. However, FIFA announced that the findings will not be made public. Qatar commissioned international law firm DLA Piper (also working for the state-owned news agency Al Jazeera) to draft a report reviewing the Qatari labor laws along with the health, safety and living conditions of the labor force. The report was delivered on April 30, 2014 and called for “a phasing out” or abolishment of certain aspects of the “Kafala” system, according to which the visa conditions and legal status of migrant workers are in the hands of the Qatari employer.

Preserving the right to host the World Cup is essential for Qatar, since it affects construction and services, two main generators of added value. According to the Ministry of Development Planning and Statistics (MDP&S), construction activity along with services will remain growth boosters in 2014, as was the case in 2013.

For the first quarter of 2014 (Q1 2014), real GDP grew by 6.2% year-on-year (y-o-y). Growth was supported by double-digit increases in construction, trading, hospitality and financial sectors which developed further to cater to a growing population, which jumped by 9.2% in Q1 2014. The real Gross Value Added (GVA) of the oil and gas sector shrunk by 1.2% y-o-y due to a retreating crude oil production and the full capacity of gas output. Crude oil production slid by 0.46% from 2.19M barrels/day (mb/d) in Q1 2013 to 2.18 mb/d in Q1 2014. As for the GVA of the non-oil sector, it rose by 11.5% in the first three months of the year.

Inflation followed a consistent upward trend since the onset of 2014, mainly on account of rental hikes in residential buildings. Year-on-year inflation stood at 2.8% in June, as the “Rent, Fuel and Energy” component of the Consumer Price Index (CPI) posted a 7.4% annual upturn, the highest thus far in 2014. Inflation however dropped from the year-high of 3.4% in May since prices of “food, beverages and tobacco” slid by 0.6% y-o-y. Inflation might face additional upward pressure down the road as the rapid population growth, mainly stemming from expatriate workers, lifts land prices and therefore rental fees. The value of real estate transactions grew by 8.5% y-o-y in Q2 2014 to \$3.85B with further progression expected for the rest of the year.

On the suppliers’ side, the Producer Price Index (PPI), measuring the average selling prices producers receive for their output, increased by 0.6% y-o-y in May mainly due to higher prices of crude petroleum and natural gas.

During the second quarter of 2014, the price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) rose from \$106.85/barrel and \$105.2/barrel in April to \$110.65/barrel and \$108.85/barrel in June.

Overall in Q2 2014 the 13% y-o-y upturn in general imports outpaced the 1% y-o-y uptick in general exports leading to a slight 2% y-o-y slip in the trade balance to \$26.6B. Evidently, the higher oil prices lifted the value of hydrocarbon exports, the largest bulk in total exports, by 2% y-o-y to \$7.2B in June. In turn, hydrocarbon receipts boosted the Qatar Central Bank’s (QCB) net international reserves by 18% y-o-y to \$41.79B by June. On the imports’ side, motor cars and other passenger vehicles were the top imported commodities, rising by 11.3% y-o-y to \$171M. Aircraft spare parts and various types of vessels, floating platforms and docks came in second and third place with respective values of \$141M and \$105M.

For the fiscal year (FY) 2013/2014, the budget surplus stood at \$31.59B, 46% higher than that of FY 2012/2013. Total revenues surged by 22% to \$95.23B while total expenditures rose by 13% to \$63.64B. Oil and gas revenues, representing 56% of total revenues, grew by 10% to \$53.63B while investment revenues, taking up 30% of total resources, surged from \$11.49B in FY 2012/2013 to \$28.28B in FY 2013/2014. As for budget expenses, current expenditures (mainly salaries and wages) continue to take up the biggest stake of 70% in overall spending, rising by 6% to \$44.84B. More specifically, salaries and wages surged by 20% to \$11.46B in FY 2013/2014. Development expenditures have risen by 33% to \$18.80B but represent only 30% of total expenditures.

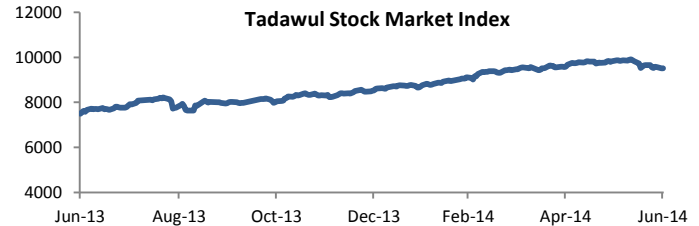
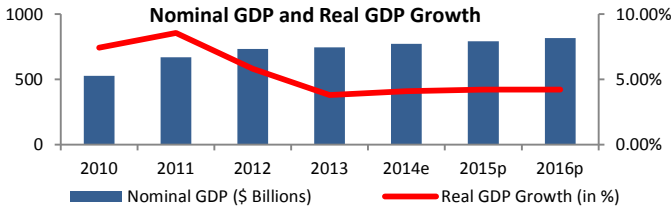
The International Monetary Fund (IMF) mentioned that Qatari banks remain well-capitalized and profitable. This allows them to provide the private and public sectors with the funds they need to grow. Private sector credit grew by 16% y-o-y to \$86.18B by June and credit to the public sector increased by 6% y-o-y to reach \$65.96B that same month. Qatari banks are also expanding outside of Qatar by venturing out on global bond deals at the same pedestal as international banks. A vivid example is Qatar National Bank’s (QNB) participation in the Kenyan government’s \$2B Eurobonds issuance in June. QNB is even in the run for managing Kenya’s first Islamic bond issuance ever.

The Doha Stock Market Index (DSMI) reached 11,489 points in June, down by 9% from 12,678 points in April. In June, trading value totaled \$4.87B, 32% below April’s value of \$7.13B while trading volume reached 398,573,839 below the 732,468,760 exchanged in April. In May, MSCI upgraded Qatar’s status from frontier market to emerging market which led foreign institutions’ net buying to surge to \$365M, the highest one-day purchase value yet.

Saudi Arabia Macro and Equity Market

Thriving Private Sector and Reforms Underway

Key Macroeconomic and Equity Market Indicators



Saudi Arabia continues to be implicated in countries rattled by the Arab Spring. A vivid example is its active steps to revive the Egyptian economy after the ousting of the former President Mohammad Morsi, most recently calling for a donor conference for the country by the end of 2014. In an attempt to stave off the wave of uprisings from the local scene, the Kingdom has started a string of reforms. Women have been officially given the right to vote and to be candidates in the 2015 municipal elections while the Public Investment Fund has been given the right to start ventures in or out of Saudi Arabia without prior cabinet approval.

Real GDP growth accelerated to 4.7% in Q1 2014 as compared to 3.8% in the same quarter last year. The contribution of the non-oil sector to the Kingdom's nominal GDP stood at 53.55%, overshadowing the 46.02% contributed by the oil sector.

Private sector activity is thriving and Saudi Arabia is counting on that to smooth the effect of lower hydrocarbon receipts in the long-haul. The SABB HSBC Purchasing Managers' Index (PMI) remains well above the 50 mark separating economic expansion from recession, standing at 59.2 in June. The private sector is benefitting from robust consumer demand which fortunately hasn't been translated into higher output prices.

Inflation stabilized at 2.7% y-o-y in June, the same level as April and May. In June, the slight decline in food inflation offset the uptick in rental inflation from 4.2% in May to 4.6% in June. Rental inflation continues to retain a significant influence on overall inflation and remains a sensitive issue the Kingdom is keen on addressing.

For a rich country like Saudi Arabia, home ownership rates are low. Elevated rents and limited home-financing schemes have created a shortage of affordable housing, specifically affecting the Saudi middle-class. After bureaucracies delayed the execution of King Abdullah's \$67B plan for building 500,000 homes, the Kingdom resorted to "Eskan", which offers state-subsidized loans and subsidized sales of land or housing units within 7 months of the application's approval. By end-2014, "Bidaya", a national real estate finance company will be rendered operational and will adopt Islamic finance products such as Ijara (leasing in Islamic finance) and Diminishing Musharaka.

Adding to the reforms carried out in the Kingdom is the ban and cancellation of real estate commissions charged by unlicensed agencies. The Ministry of Justice is cracking down on unlicensed real estate agencies, usually inflating commission fees above the legal limit of 2.5%.

On the energy front, demand, production and prices of oil have all risen. OPEC reported an upturn in the Kingdom's oil demand in June on account of expansions in the petrochemicals sector and the road transportation sector.

The road transport sector grew due to higher auto sales, bigger demand during Ramadan and due to large projects being carried out. On the supply front, Saudi Arabia's crude oil production rose from 9.67M barrels/day in May to 9.73M barrels/day in June with the average price per barrel increasing from \$101.4 in May to \$105.7 in June. Higher oil receipts have boosted the foreign reserves at the Central Bank (SAMA) by 8% y-o-y to \$740.66B in May.

Saudi officials are conscious that local oil demand is on the up, eating away at the receipts from crude oil exports. More particularly, air conditioners take up more than 70% of the energy consumed in the Kingdom. In 2014, more than 50,000 air conditioners, which don't meet the new energy efficiency standards, have been confiscated. The allowed air conditioners are ones equipped with labels informing the consumer on the energy-efficiency and power-saving abilities of the product. Following these measures, consumers have reported a 30% drop in their energy bills.

Several reforms are on Saudi Arabia's agenda, one, recommended by the International Monetary Fund is offering more incentives for firms to export. In May 2014, non-oil exports reached \$4B, 5% below their value in May 2013. The UAE, China, Singapore, India and the United Kingdom were the main destination markets for Saudi exports, which combined, represented a 44% share in total exports. As for general imports, they dropped by 5% y-o-y to \$13.92B in May.

According to the IMF's Article IV Consultation, the Kingdom has accumulated large external and fiscal surpluses owing to substantial oil output and prices. However, as prospects of lower oil prices loom ahead and given the substantial growth in government expenditures, the fiscal breakeven price has increased and is expected to reach \$97 per barrel in 2014. On the long term, the fiscal framework should focus on increasing non-oil revenues in parallel to slowing down expenditures' growth.

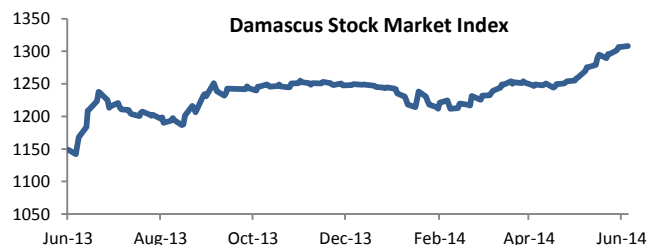
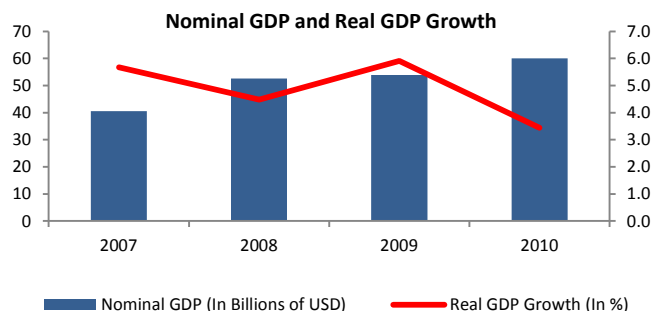
The private sector, currently a major contributor to value-added in the country, continues to benefit from banks' financing. Loans to the private sector recorded a double-digit y-o-y growth of 12% in May to reach \$318.82B. Private sector imports financed through commercial banks (Newly Opened Letters of Credit) grew by 25% y-o-y in May to \$4.47B.

At the end of June 2014, the Tadawul All Share Index (TASI) closed at 9,513.02 points, a 3.16% monthly slip. 5.35B shares, worth \$48B were traded on the Tadawul Stock Exchange in June compared to 8.04B shares, worth \$64.68B in May. Cement and Transportation were the only positive performers of the month as their indices gained 0.96% and 1.31%, respectively. As for Media and Publishers, Real Estate Development and Multi Investments, they were the month's worst performing sectors with respective losses of 42.14%, 10.82% and 8%.

Syria Macro and Equity Market

Raging Conflict Adds to Economic Woes

Macroeconomic and Equity Market Indicators



Amidst an ongoing civil war and elections gathering much controversy, Bashar al Assad was re-elected President of the Syrian Arab Republic in June with 88.7% of votes. Two other candidates were up for the presidency: Hassan al-Nouri, businessman and former minister and Maher Hajjar, a member of parliament. Al Nouri's campaign was based on the economic front and won him 4.3% of the votes while that of Hajjar was under the slogan of "Syria is with Palestine" attracting only 3.2% of the votes. The elections were the first to be held since the revolution erupted in 2011 and strictly took place in regime-friendly areas.

The situation in post-election Syria was little changed as violent attacks between the regime and the opposition continued, taking the death toll to 162,402. The Syrian Observatory for Human Rights reported that the number of deceased children amounted to 8,607 of the total. The UNHCR put the total population of concern i.e. requiring humanitarian assistance at 6.97M as of January 2014.

According to the Syrian Center for Policy Research, since the start of the conflict until 2013, the economic losses totaled \$143.8B or 276% of 2010's GDP in constant prices. GDP losses, accounting for 49% of total economic losses, reached \$70.9B. The main sectors contributing to GDP loss were internal trade (22.8%), transport & communication (17.5%), mining (14.4%), manufacturing (12.2%), government services (9.7%) and agriculture (9.6%).

By 2013, consumer prices surged by 178% since war broke out with the price of basic commodities (yogurt, cheese and eggs) swelling by 360%. As raging inflation drained the finances of the deprived Syrian population with 3 out of 4 Syrians living in poverty and 54.3% of the labor force being unemployed, and as more public funds are dedicated to military purposes, government subsidies of basic commodities becomes difficult to sustain. The provision and subsidizing of basic commodities and oil has become increasingly burdensome taking public debt up to 126% of GDP in Q4 2013.

The oil production has fallen from 385,000 barrels/day (b/d) in March 2011 and 47,000 b/d in the first quarter of 2013 to 14,000 b/d in the first quarter of 2014 (Q1 2014). Natural gas production glided from its 2011 peak of 24M cubic meters/day in 2011 to 16.1M cubic meters/day in the first quarter of 2013 to 15.4M cubic meters/day in Q1 2014.

Today, petrol is still slightly subsidized in Syria despite increases in price. The retail petrol price has been raised by 20% in mid-April to 82 US Cents/liters as the depreciating Syrian pound inflates the petrol bill. The Economist Intelligence Unit (EIU) expects subsidies to grow smaller over time in order to alleviate fiscal pressures.

Inevitably, the raging war exercised tremendous stress on public finances. Revenues from taxes and fees are expected to drop from 165B SYP in 2013 to 117B SYP in 2014 while those received in exchange of services are estimated to fall from 2.53B SYP in 2013 to 2.52B SYP.

Various ministries proposed the amount of funds they need to rehabilitate the sector they are in charge of and none was able to get approval on the proposed figure.

The proposed amount for the rehabilitation of water resources was of 2.05B SYP but only 575M SYP were agreed; the proposed figure for restoring the oil sector stood at 3.4B SYP while only 2B were agreed; 144M SYP were proposed for the ministry of economy, a mere 3M SYP were agreed; 759M SYP were demanded for repairing internal trade but discussions led to the allocation of only 200M SYP.

The revenues of the Lattakia port exceeded 2.8B SYP in the first half of 2014, a 214% surge compared to 2013. The number of incoming and outgoing containers rose by 28% year-on-year to reach 125,222 and the main traded products were wheat, corn, sugar, rice, flour and soya. The higher activity at the port could be linked to the arrival of two new container carriers in April, worth \$2.4M. At the end of June, the last stock of chemicals was shipped off from the Lattakia port.

On the monetary front, it has been reported that state-owned banks' liquidity has improved in the first quarter of 2014. In fact, it has been estimated that deposit growth was no less than 45% y-o-y in the first three months of 2014, with saving deposits grasping the largest share of total deposits. Higher deposits came about as the central bank of Syria issued instructions allowing easy withdrawal procedures and as higher interest rates on deposits were applied.

The Syrian pound's peg against the dollar went from a mid-price of \$/SYP 149.94 at the beginning of April to a mid-price of \$/SYP 146.06 at the end of June. The Syrian Pound's peg against the dollar remained quite stable in the Jan-June 2014 period and averaged 146.15. Although the central bank is purchasing millions of dollars daily to stock up on foreign reserves, the pound did not collapse which helped contain inflation in government controlled areas. The reason behind this is that some of the dollars that poured into rebel areas ended up with the central bank through local trade.

In June, the Damascus Stock Index (DSI) rose by a monthly 3.84% to 1,307.97 points. Around 1M shares exchanged hands with an overall value of 152M SYP compared to a volume of 307,000 and a value of 99M SYP in May. The top gaining companies were Syria International Islamic Bank, Al Ahliya for Vegetable Oil, Fransabank Syria, Banque Bemo Saudi Fransi and Arab Bank Syria. As for the top losers they were: Syria Gulf Bank, Bank Alsharq, Bank of Jordan Syria and International for Trade and Finance.

UAE Macro and Equity Market

Buoyant Economy boosted by Business Optimism and Numerous Opportunities

Key Macroeconomic and Equity Market Indicators



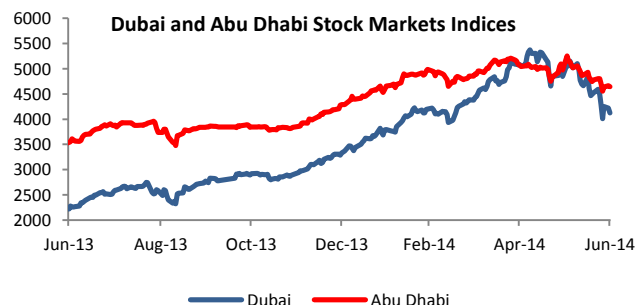
“Another day, another record” best describes the United Arab Emirates’ (UAE) strategy to preserve its position as a top-notch location in the region and the world. Besides the world’s tallest tower on Earth, the UAE is now aiming for the stars. The emirates are organizing a space program to send the first Arab spaceship to Mars in 2021. In addition, and after grasping the World Expo 2020, Dubai is planning to build “Mall of the World”, the world’s largest shopping mall. The 8M square feet new mega-project will be the first temperature-controlled mini-city housing more than 100 hotels, numerous stores and retail outlets, a wellness center, a theme park and other features.

Looking at the economic performance of the UAE, growth is expected to settle at 4.8%, according to the IMF’s latest report, compared to the 5.2% reached in 2013. This was largely reflected by the non-oil private sector’s positive performance as revealed by the UAE’s Purchasing Managers’ Index (PMI) that hit 58.2 in June 2014, compared to 54.1 a year ago which is still above the expansion contraction frontier of 50. As for inflation rate in the first half of 2014, consumer price index rose by a yearly 1.91% compared to the first half of 2013.

Tourism in the UAE remains one of the cornerstone sectors to diversify the economy away from oil. The ongoing expansion projects at Dubai International Airport (DIA) managed to boost the total number of its passengers that grew by 6.2% y-o-y to 34.67M in H1 2014 compared to 35.06M travelers through the world’s busiest airports, London Heathrow. The 80-days closure of 2 runways at DIA for maintenance work allowed the British airport to regain its top position after losing it in the first five months of 2014. However, the 2 runways’ refurbishment is expected to enhance air traffic by one-third which would allow DIA to capture the world’s busiest airport title by early 2015. As of the beginning of August, a new system for issuing and charging visas will be applied in the UAE to support economic growth and tourism.

In another context, hospitality sector also boomed in H1 2014 with occupancy rates in Dubai and Abu Dhabi leading those in the rest of the MENA countries at 84% and 81% compared to 85% and 80% in H1 2013. A hospitality Federation for the UAE will be set in order to improve the skills and capabilities of the hospitality and culinary sectors.

On the external front, the UAE are forecasted to post a \$60.01B surplus in its balance of trade (goods and services). This will mean a 14.7% yearly decrease from 2013’s level of \$70.38B as imports are expected to grow at a faster pace than exports. In details, imports are projected to post a 5.8% y-o-y uptick to \$319.2B by the end of 2014, while exports are forecasted to edge up by 1.9% y-o-y to \$379.2B.



Dubai’s customs registered a 10% yearly increase in delivered transactions to 4.5M in H1 2014 which mirrors the improving performance of foreign trade in Dubai.

On a positive note, hydrocarbon exports constitute 31% of total exports and are expected to decrease by 4.7%, while non-hydrocarbon exports snatched 69% of total exports and are forecasted to show a 5.0% yearly growth in 2014.

On the fiscal level, the Institute of International Finance (IIF) forecasted that the consolidated fiscal balance will register a surplus of 8.5% of GDP (or \$35.73B) in 2014 if net loans and equity are excluded from expenditures. Consolidated revenues are estimated to slip by 2.5% to \$132.61B or 31.4% of GDP in 2014, while the consolidated government expenditures (excluding net lending) will stand at 22.4% of 2014 GDP or \$96.9B.

The banking system in the UAE preserved its soundness with M3 posting an 8.1% y-t-d growth in May 2014 to reach \$355.91B. As for total bank assets, they rose by 10.2% y-t-d to \$602.94B compared to \$546.97B recorded in December 2013. Winning the hosting right of the World Expo 2020 fastened Dubai’s recovery from 2008’s crisis and had an immediate impact on UAE’s real estate and construction sectors which was partly revealed by a swelling lending activity. In details, total bank loans and advances edged up by 12.7% y-t-d to \$358.18B by May 2014 while deposits added 7.9% y-t-d to \$355.91B over the same period. Accordingly, loans to deposits ratio increased from 92% to 96%.

In Q2 2014, UAE’s stock markets dampened compared to the first quarter of the year on Arabtec saga. Dubai Financial Market’s index tumbled by 11.4% to settle at 3,492.82 compared to the previous quarter’s level of 4,451 points while Abu Dhabi equity index lost 7.0% to 4,551.02 points compared to March’s end of period level of 4,894.42 points. However, when comparing to the same quarter in 2013, both indices showed positive performance with the former surging 73.1% and the latter edging up by 28.2%.

On the Dubai Stock Market, the average daily traded volume surged to 654.47M shares worth \$539.07M, up from 445.79M worth \$161.68M in Q2 2013. The number of transactions edged up from 328,746 in Q2 2013 to 722,032 in the same period this year. As for market capitalization, it widened by an annualized 59.7% to \$74.69B by June 2014.

With respect to Abu Dhabi’s Stock Exchange, the average daily volume traded reached 290.59M shares worth \$371.36M in Q2 2014 compared to 196.79M shares valued at \$92.84M recorded a year earlier. The market capitalization widened by 25.5% y-o-y to \$115.36B, with the number of transactions up from 147,243 in Q2 2013 to 281,737 by June 2014.



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