

MENA Review and Quarterly Outlook

BLOMINVEST Views on Regional Economic and Financial Developments for Q2 2015

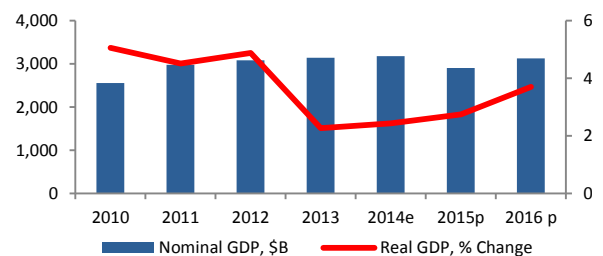
View of the Quarter

With most of MENA countries fainting under the strains of terrorism and violence, the frail levels of oil prices remained a double-edged sword during the second quarter of 2015. While oil-exporting countries couldn't refrain from the spillovers of the bearish oil trend on their economic activity despite their trials to diversify away from the black gold, oil-importing countries were struggling to buffer themselves from the security and political developments that were hitting the region. Thus, and in the face of lower oil prices, **Saudi Arabia** was tapping into its large reserve assets at the Central Bank, using up to \$65B of those reserves since oil prices started slumping. The kingdom also opened up its bourse to foreign investors, allowing the stock market index to register a 9.04% year-to-date increase in the first half of the year. Stepping towards the neighboring **United Arab Emirates (UAE)**, the ongoing bearish international oil prices have taken a toll on their trade and fiscal performances over the second quarter of 2015. However, the rate of business expansion remains strong thanks to a favorable business environment combined with growth in government spending. As for **Qatar**, and though facing big challenges concerning the right to host the 2022 World Cup, the preparations undertaken were accomplishing the Emirate's mission to progressively shrink its dependence on hydrocarbon industries, which led the country to be fairly immune to declining oil prices. On a separate note, the raging war in **Syria** has compelled the government to increase the prices of fuel oil, gasoline and imported food products. The government, in desperate need for revenues, is also working on limiting tax evasion. As for **Egypt**, the country upheld its will to recover 2011's uprisings and to maintain a robust economic performance amid mounting terrorist attacks. On the brighter side, **Lebanon's** economy showed a modest recuperation in most of its economic sectors as the security situation remained stable. The tourism sector rallied, mainly owing to the low base reached in 2013 and 2014. The monetary sector remained sturdy, while the external and fiscal sectors weakened. When it comes to **Jordan**, and even as the surrounding region fell in to more political disruption and violence, the Hashemite kingdom not only succeeded in shielding itself from the drawbacks of such an environment, but also managed to push forward and achieve significant progress in various economic sectors, epitomized in the successful completion of the 2-year aid agreement with the International Monetary Fund (IMF).

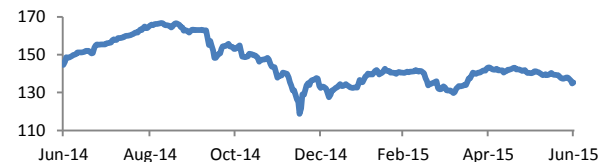
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MENA GDP Indicators



S&P Arab Composite Index



Marwan Mikhael	Head of Research
Mirna Chami	Research Analyst
Riwa Daou	Research Assistant
Lana Saadeh	Research Assistant
David Achdjian	Research Assistant
Wael Khoury	Research Assistant
Cyril Assaf	Research Assistant

Egypt Macro and Equity Market

Domestic skirmishes in Sinai are weighing on the economy

Key Macroeconomic and Equity Market Indicator



The second quarter of 2014 was no different than the previous one. Egypt remained dogmatic in its belief about fighting terrorism that was diffusing through its borders. The most populous country in the Arab world participated in the Saudi-led military intervention, fought the Houthis in Yemen and the 6 Sinai insurgencies over the last quarter. On the local front, and after a 20-year prison verdict in April, ousted president Morsi was sentenced to death in May on charges related to 2011's jailbreak case. By the end of June, the Prosecutor-General Hisham Barakat and 3 members of the public were killed in an alleged Islamist car bombing in Cairo. On the brighter side, Egypt finalized its energy deal with the British oil company BP that will allow the development of gas resources and condensates in the West Nile Delta.

The recovery of tourism and manufacturing kept on boosting economic activity in Egypt during the Q2 of 2015. According to Egypt's Economic Monitor published by the World Bank this spring, real Gross Domestic Product (GDP) growth accelerated to 5.6% in H1 2015 as compared to the marginal 1.2% recorded in the same period of 2014. The report also stated that unemployment rate stood at 13% in H1 2015. Separately, international economic developments were favorable for containing inflation levels during Q2 of 2015 of which the weakening of the euro and the dwindling oil prices. Thus, the annual core inflation rate averaged 7.35% by May 2015 as compared to an average of 9.85% by May 2014.

Terrorist attacks in Luxor and Giza during the Q2 of 2015 jolted the recovering tourism activity and slowed down its progress. In fact, tourist arrivals managed over the first four months of 2015 to edge up by 7.3% y-o-y to 3.08M while the number of nights spent by tourists barely changed over the same period from 29.46M by April 2014 to 29.54M by April this year. Accordingly, the average number of nights spent by tourists slipped 6.8% y-o-y to 9.6 nights per tourist by April 2015. As for tourism receipts, the latest data revealed that travel revenues surged by 58.6% y-o-y to settle at \$5.47B during the first three quarters of the financial year (FY) 2014/15. Hospitality industry revealed gigantic upturns in the first five months of 2015 which could be mainly attributed to the 32nd round of the Pharaohs International Cross Country Rally that attracts participants from all over the world. In details, occupancy rate at 4- and 5-star Egyptian hotels surged by a yearly 18% to 50% by May 2015. As for the average room rate, it edged up from \$78 by May 2014 to \$103 this year with rooms yield more than doubling from \$25 to \$52 in the first five months of 2015.

Egypt's external standing was impacted by the international dynamics related to the declining oil prices. The Balance of Payments went from \$2.2B in the first three quarters of FY 2013/14 to \$1.05B in the same period of the FY 2014/15. This majorly resulted from the broadening deficit of the current account balance from \$543.1M in the period July/March of FY 2013/14 to \$8.4B in July/March of FY 2014/15. In reality, trade deficit widened by a yearly 22.7% to reach \$29.6B over the same period following a 13.8% slump in merchandize exports against a 6.3% y-o-y rise in imported goods in July/March of FY 2014/15. It is worth mentioning that exports of crude oil constitute around 28.4% of Egypt's exports of merchandizes.

On a different note, Foreign Direct Investments (FDI) in Egypt hit the \$5.7B between July/March of FY 2014/15 as opposed to \$3.1B a year earlier. It was noticeable that \$2.9B of total FDIs (more than 50% of the total) were registered between January and March of FY 2014/15 which is positively related to the economic summit that took place in Sharm el Sheikh in Mid-March.

On the public finance front, the overall fiscal deficit widened by 54.7% y-o-y to reach \$29.74B in the first 3 quarters of FY 2014/15. In fact, the consolidated fiscal revenues slightly improved by a yearly 1.4% to \$41.93B, while total government expenditures went up by an annual 17.5% to \$70.10B between July-March 2014/15. However, waves of disappointment followed the government's resolution to modify the application of several taxes which will negatively impact fiscal revenues in the coming period. Regarding the nation's debt, it stood at \$257.71B by the end of March 2015 compared to \$218.29B in March 2014.

In the monetary sector, the banking sector's situation remained stable over the period between March and June 2015. In fact, net international reserves at Egypt's Central Bank (ECB) reached \$20.08B as of June 2015, up from \$15.29 in March 2015 and \$16.69B in June 2014. On the other hand, and following the ECB's governor statement in February that he eliminated the black market for dollars after imposing a \$50,000 bank-deposit monthly limit, traders offering U.S. currency for higher rate than the official ones were back triggering the price of the Egyptian pound down as mirrored by the exchange rate that depreciated by 0.70% from the previous quarter to EGP7.63/USD by the end of June 2015.

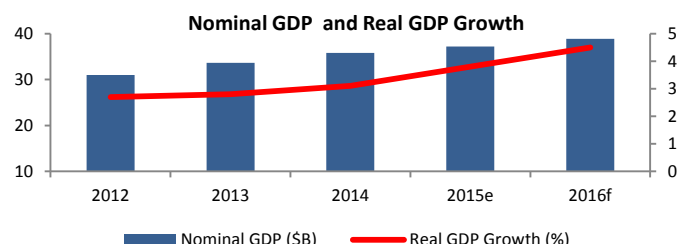
The banking sector has shown a notable appetite for the government's Treasury Bills (TB), as their consolidated portfolio of TBs accounted for 44.1% of their total assets as of April 2015. The sector remains strongly resilient with credit facilities substantially growing by 22.2% y-o-y to settle at \$88.87B by the end of April 2015. Similarly, deposits at commercial banks rose by a yearly 21.2% to \$214.05B over the same period.

The decision of postponing the application of the 10% capital gains tax for 2 years and its positive vibes on the Egyptian stock market failed to boost the year-to-date performance of the country's benchmark index. In fact, the security turbulences that the country encountered over Q2 2015 triggered the EGX30 down by 6.2% y-t-d in the first six months of 2015 to settle at 8,371.53 points. Similarly, market capitalization lost 9.2% since year start to reach \$62.98B by the end of June 2015 with the number of transactions slumping by 40.3% from Q4 2014 to 1.04M in Q2 2015. The average daily volume traded reached 128.45M shares worth \$54.39M during Q2 2015, down from 195.52M shares worth \$96.83M recorded in Q4 2014. In a step to improve the benchmark index, the Egyptian bourse stated a plan to reduce the required free float for new companies to be listed on EGX30, starting August 1. In details, the new equal-weighted index will include the top 50 listed companies in terms of liquidity.

Jordan Macro and Equity Market

Despite regional flares of terror, Jordanian economy shines bright

Key Macroeconomic and Equity Market Indicators

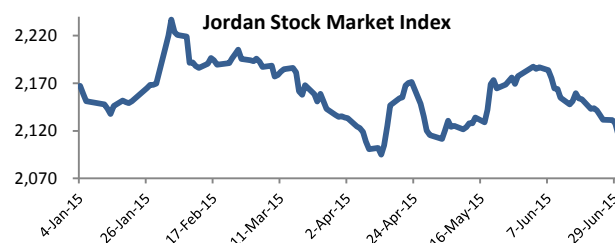


The second quarter of 2015 proved to be a further step forward for the Hashemite Kingdom's economy, as most economic sectors improved. However, the tourism sector and the local bourse suffered the brunt of the force of local and regional difficulties. Regarding the influx of Syrian refugees, data from the United Nations' High Commissioner for Refugees (UNHCR) reports that, as of June 17, the number of Syrian refugees in the country has roughly remained stable over the past three months, with the total number standing at 629,128. Unfortunately, the funding necessary to provide the required care for refugees in Jordan is still well below expectations, with only \$267.80M of the estimated required budget of \$1,191.32M so far received.

The most note-worthy development in the Kingdom's economy was the conclusion of the seventh and final review of the International Monetary Fund (IMF). Jordan's overall economic performance throughout the year satisfied pre-arranged standards of performance and granted Jordan access to the remaining \$400M of the \$2B stand-by arrangement.

Tourism in Jordan continued to experience poor results in 2015. According to the Ernst & Young hotel occupancy report, the capital Amman has experienced a 10-percentage point year-on-year (y-o-y) decrease in hotel occupancy rates by May 2015 to 55%. Over the same period, average room rates and room yields in Amman experienced respective declines of 5.6% and 20.2% to \$155 and \$86. These drops in performance can be mainly attributed to the regional terrorism threat that has escalated since the start of the year. Similarly, travel receipts dwindled by 14.8% y-o-y to \$1.24B by April 2015.

In contrast, Jordan's performance in trade revealed notable improvements, as the deficit narrowed by 15.66% y-o-y by end-April 2015 to \$4,082.18M. This improvement can be directly traced to the 14.34% decline in total imports to \$6,557.02M. This decrease can be linked to significant drops in the value of imported petroleum crude, gas and diesel oil, and fuel oil by 29.15%, 57.14% and 55.79% to respective values of \$539.34M, \$356.73M and \$62.84M due to lower international oil prices and supply cuts from Egypt, which were partially offset by increases in imports from Russia, India and the UAE. It is also worth mentioning that iron and steel witnessed an annual 22.66% slow-down in imports to \$197.94M by May 2015, while nuclear reactors, machinery and mechanical appliances witnessed an 18.44% increase to \$646.11M over the same period. On the exports side, the 12.08% annual decline during the first five months of 2015 to \$2,474.84M is largely linked to the respective declines of pharmaceutical products, mineral/chemical fertilizers and potassium crude by 19.68%, 45% and 14.62% y-o-y to respective amounts of \$168.72M, \$99.83M and \$190.29M.



Regarding the fiscal balance, the Hashemite Kingdom succeeded in recording a fiscal surplus (including foreign grants) equivalent to \$113.47M by end-March 2015, compared to a fiscal deficit of \$420.34M over the same period in 2014. Disregarding foreign grants of \$294.62M, Jordan's fiscal deficit for the first quarter of 2015 tallied \$181.15M, while this figure stood at \$712.08M by end-March 2014. Net outstanding public debt by March 2015 edged up by 1.42% y-o-y to equal \$30,018.38M, and stood at 76.8% of GDP, compared to 80.8% during the same period last year. In details, net outstanding public debt increased 2.86% y-o-y to \$18,551.52M (47.5% of GDP), while outstanding external public debt inched down by 0.83% y-o-y to \$11,466.86M (29.3% of GDP) by March 2015. In terms of public revenues, Jordan witnessed a 14.87% annual increase to \$2,403.07M, as tax revenues rose 7.94% to \$1,456.85M, equivalent to 69.10% of domestic revenues.

Developments in the Kingdom's banking sector were summarized by a 3.93% year-to-date (y-t-d) uptick in money supply M2 to \$43,761.17M by March 2015, following the increase of both domestic deposits and currency in circulation by 4.39% and 0.85% to \$38,236.46M and \$5,524.71M, respectively. Credit facilities provided by Jordanian banks rose by \$896.11M since the start of the year to attain \$28,651.39M by end-Q1 2015. Net domestic assets at the country's licensed banks gained 4.23% y-t-d to \$40,618.66M, while net foreign assets at the same banks experienced a slight 1.10% slip to \$2,922.19M during the same period. Meanwhile, foreign currency reserves at the Central Bank of Jordan experienced a \$421M decrease by end-March to stand at \$13,657.80M, thereby covering roughly 7.2 months of Jordan's imports. In addition, the Central Bank of Jordan reduced each of the re-discount rate and the overnight, weekly and monthly repurchase agreements rates by 25 basis points (bps) to 4%, 3.75%, 2.75% and 2.75%, respectively. The overnight deposit window rate experienced a more pronounced decrease of 100 bps to 1.75%.

A surge in prices of listed securities following the unveiling of the "Jordan 2025" development blueprint between the 12th and the 16th of April was not enough to maintain positive investor sentiment on the Amman Stock Exchange. The Jordanian Bourse witnessed the resultant gains erased by the end of the quarter, closing on June 30th at 2,116 points. This value is equivalent to a 2.26% y-t-d decline. During the first half of 2015, 1.29B shares were traded on the exchange for a combined value of \$1.88B, compared to 1.32B shares worth \$1.90B over the same period in 2014. Meanwhile, the total number of transactions witnessed a 15.44% y-o-y decline by June 2015, totaling 447,170 transactions. By end-June 2015, the Index's market capitalization stood at \$25.48B, compared to \$27B at June 30th, 2014.

Lebanon Macro and Equity Market

Revealing Modest Improvement within a weakening environment

Key Macroeconomic and Equity Market Indicators



Lebanon recorded its longest presidential deadlock since independence with more than a year without a president of the republic. Yet, the security situation remained stable, despite few clashes on the borders. This has led to an uneven improvement in some sectors of the economy. Moreover, a new traffic law was enforced, where traffic safety witnessed a positive development, as manifested in a remarkable year-on-year (y-o-y) plunge of 71.5% in traffic accidents to 256 in the first half (H1) of 2015.

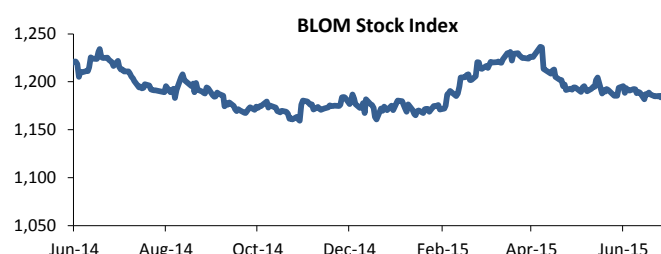
The International Monetary Fund (IMF) expected economic growth rate to increase from 2% in 2014 to 2.50% in 2015. However, the BLOM Purchasing Managers' Index remained below the 50 mark, at an average of 48.8 points in the second quarter (Q2) of 2015, compared to a higher average of 49 points in the first quarter of 2015.

Lebanon experienced a deflation in the H1 2015 as consumer prices declined by 3.37% y-o-y, after Brent crude oil price reached a 5Y minimum end of January. The Consumer Price Index stood at 97.22 points end of June, mostly due to the 18.66% and 9.26% drops in its 2 major sub-indices "water, electricity, gas & other fuels" and "transportation", respectively.

As for the real-estate sector, total transactions (local and foreign) stood at 28,722, recording a 14.97% yearly drop and amounting to \$3.59B by the end of June 2015. In contrast, figures revealed that foreigners' share of total real estate transactions went up yearly from 1.51% to 2.33% by June 2015. This improvement probably came about as security developments eased during the first five months of 2015, which positively impacted tourism activity and foreign investors' sentiment.

Likewise, construction was worse off, with the number of permits declining 15.87% y-o-y to 7,387 by June. Noting that permits are usually issued at least 6 months after applications are filed, the fall in construction activity was due to the declining drift in demand that has started in 2011 following the eruption of the Arab spring.

The stable Lebanese security scene in 2015 has played in favor of the tourism sector despite the ongoing political deadlock. According to the Ministry of Tourism, the number of tourist arrivals rose by a yearly 14.72% to 671,393 in H1, 2015. Tourist spending in Lebanon grew 7% y-o-y during the same period, according to Global Blue. Consequently, hotel occupancy improved, with the average rate adding 6 percentage points to 56% by June. Average room rate and average room yield gained 4.56% and 17.06% to \$176 and \$99, respectively.



Despite the positive balance of payments (BoP) of April and May, the improving tourism activity, and the contracting trade deficit, Lebanon's BoP remained in the red for the first six months of 2015, recording a deficit of \$1.23B, compared to a surplus of \$215.7M, in the same period last year. The reason could be a slowdown in expatriates' transfers due to domestic political tensions and to current economic conditions in the GCC countries following the decline in oil prices. A drop in portfolio investments and FDI contributed to the negative BoP. Nevertheless, Lebanon's trade deficit dropped by 18.78% y-o-y by June 2015 to record \$7B due to a 16.77% decrease in overall imports outpacing the 6.34% decline in total exports. This was mainly contributed by the prominent trend of the depreciating Euro and falling international oil prices, over the same period. Worth noting that due to the heavy clashes between rebels and Syrian government forces that forced the closure of the Nassib crossing between Syria and Jordan in April, 900 tons of agricultural produce was wasted each day. Hence, the Cabinet allotted \$21M for the export of agricultural products, where truck owners would be granted \$2,000 per trip to help them take the marine route instead of the traditional used land roads.

Shifting to the fiscal sector, gross public debt (GPD) climbed 7.06% y-o-y to reach \$69.46B or 146.24% of Lebanon's GDP by April 2015. Moreover, fiscal deficit widened 26.43% yearly to \$1.06B in the first quarter of 2015, with a primary deficit of \$138.04M compared to a primary surplus of \$38.2M, during the same period of 2014. This came as a result of a 14.07% decrease in total revenues outstripping the 3.65% downtick in total expenditures. The drop in revenues was driven by a 12.06% decrease in VAT revenues, while the main decrease in expenditures came as a result of the 39.89% plunge in EdL transfers.

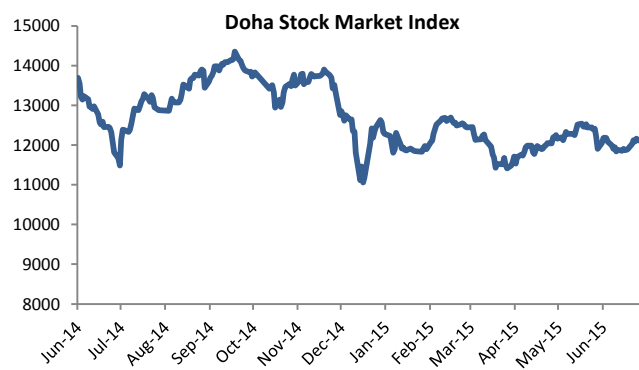
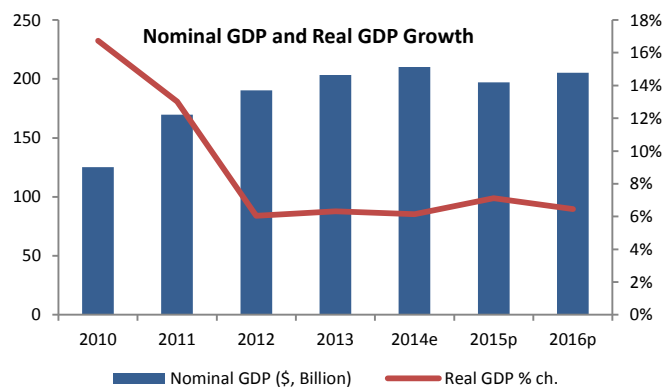
The monetary front remained one of the most important pillars of the economy, as BDL's total assets increased 2.07% q-o-q, to stand at \$90.68B by the end of Q2 2015. Likewise, its foreign currency reserves inched up 1% during the same period to \$38.86B. Total assets of commercial banks posted a 2.50% increase since year start, to \$180.08B by June. Resident private sector deposits progressed by 2.44% to \$116.90B in H1 2015.

The Beirut Stock Exchange retreated in the second quarter of 2015, where the BLOM Stock Index (BSI) dropped 3% from Q1, to 1,189.31 points end of June, 2015. Trade occurred at a lower average volume of 168,932 shares worth \$1.70M, compared to 262,596 shares worth \$2.01M, the previous quarter. Market capitalization narrowed from \$10.32B to stand at \$10.01B at the end of the first half of 2015.

Qatar Macro and Equity Market

Economy Mirrored Lower Oil Prices

Key Macroeconomic and Equity Market Indicator



Already overwhelmed by criticism, Qatar's right to host the 2022 World Cup faced its biggest challenge following the arrest of several FIFA executives and the criminal proceedings in Switzerland. However, Qatar has denied any wrongdoing in the country's bid for the 2022 World Cup and is committed to using the World Cup as a platform to break down prejudice and misconception.

The undertaken projects in preparation for the FIFA World Cup 2020 gave rise to a 4.1% year-on-year (y-o-y) growth in Qatar's real GDP, in the first quarter (Q1) of 2015.

Real Gross Value Added (GVA) of the mining and quarrying sector, with a 50.77% share of GDP, showed a 0.1% yearly decline, while GVA of the non-mining and quarrying sector grew 7.1%, boosted by double-digit rises seen mainly in construction, trading, hospitality and financial sectors, coupled with over a 9% jump in the country's population in Q1, 2015.

Inflation was confined at 0.87% y-o-y in May 2015, influenced by 2.27% and 2.85% price rises in "Housing, Water, Electricity & Gas" (21.89% weight) and "Transport" (14.59%). These increases were partly offset by the 6.51% drop in the "Recreation & Culture sub-index. However, inflation is predicted to pick up as the population continues to grow.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices domestic producers receive for their output, plummeted by 37.4% y-o-y in April, primarily due to the sharp decline in prices of crude oil and natural gas during 2014. The price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) shed from \$108.1/barrel and \$106.5/barrel end of May 2014 to \$65.4/barrel and \$63.1/barrel end of May 2015. Therefore, the "Mining" group, which represents 72.67% of the PPI plunged by 41.5%. The PPI "Manufacturing" subcomponent also showed yearly decline of 26.8%, while "Electricity and water" sub-index edged up by 2.1%.

As for Qatar's trade balance, it narrowed by 50.30% y-o-y to \$18.40B by end April 2015, as a result of lower exports and higher imports. Declining oil prices drove down the largest component of total exports, hydrocarbons, by 40.57%, inflicting a 37.41% y-o-y plunge in exports to \$29.11B by April 2015. On the other hand, imports amplified by 12.91% y-o-y to \$10.71B, where motor cars and other passenger vehicles were the top imported commodities, going up by a yearly 21.81% to \$1.05B.

On the fiscal front, Qatar's fiscal surplus is expected to narrow significantly from 12.3% of nominal GDP in 2014 to 1.4% in 2015. This reduction reflects a relatively quick pass-through of lower oil prices on budget revenues. It also mirrors the rise in capital outlays as implementation of the infrastructure program gathers pace.

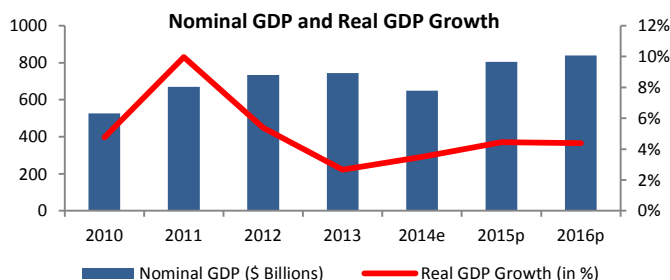
Looking at the monetary sector, total assets at commercial banks inched up by 1.48% since end of 2014 to \$275.30B, by May 2015. Private sector credit amplified by 7.51% to \$102.46B, while that of the public sector dropped 7.55% since year start to \$58.30B by May. Total deposits posted a 4.89% growth to \$170.22B, due to the 3.54% and 42.58% increases in resident and non-resident private sector deposits that partly offset the 1.15% drop in public sector deposits.

Investors' sentiment remained depressed by falling oil prices, as the Doha Stock Market Index (DSMI) slipped by 1.96% q-o-q to 12,201.02 points end of June 2015. Trade during the second quarter of 2015 occurred at a higher volume of 758.04M shares worth \$7.91B compared to 716.28M shares worth \$8.30B during Q1, 2015.

Saudi Arabia Macro and Equity Market

Substantial Buffers against Low Oil Prices

Key Macroeconomic and Equity Market Indicators



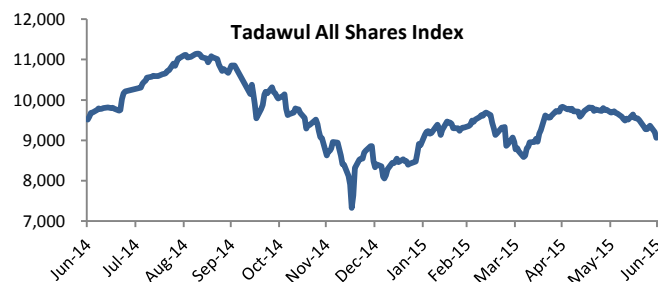
The newly appointed king Salman reshuffled several power positions in the Kingdom. After Prince Muqrin relinquished the title of crown prince, Muhammad Bin Nayef was appointed to the role. As for the second position in line to the throne, it was designated for Prince Mohammed Bin Salman, the current king's son who is also assuming the functions of defense minister, secretary general of the royal court and head of the Council for Development and Economic Affairs. The foreign minister Prince Saud al-Faisal was also replaced by Adel Al Jubeir, Saudi Arabia's ambassador to the US.

On the economic front, Saudi Arabia's Purchasing Managers' Index (PMI), reflecting the performance of the non-oil private sector, slumped to its lowest level in six years during the second quarter of 2015 (Q2 2015). The gauge went from an average of 58.8 in Q1 2015 to an average of 57.13 in Q2 2015 as the kingdom paddles through a period of low oil prices and through a period of political tension by opposing Shiite Houthi rebels in Yemen. The lower PMI readings still point to an expansion in the Saudi non-oil private sector, but simply at a slower rate.

Inflation remained subdued but edged up from 2.00% in April to 2.1% in May and then to 2.2% in June. The prices of "food and beverages", holding the largest weight in the consumer price index of 21.7%, grew by a yearly 2.2% in June. Moreover, rental inflation has accelerated over the first few months of 2015 after dipping to 3.2% in March, the lowest in 2015, rental inflation edged up again to reach 4.0% in June.

A recent report by Jones Lang La Salle (JLL) confirms the notion that rents are on the up in the kingdom, growing between 10 to 15% per annum. Renting property has become a more appealing option than purchasing property since borrowers are only allowed to borrow 70% of the property's sale price¹ which entails a large down-payment. Borrowers are also hesitant to commit to a housing loan since they might face higher repayment costs when and if the US Federal Reserve increases interest rates. According to JLL, since the introduction of the loan-to-value restriction back in November 2014, the volume of villa and apartment transactions shrunk by around 70% and 33%, respectively.

Non-oil exports and imports both decreased in June. Non-oil exports declined by a yearly 21% to \$4.1B while imports fell by a yearly 10% to \$13.82B. Due to declining oil prices, exports of products of the chemical or allied industries



recorded a double-digit annual drop of 28% to \$1.32B while exports of plastic, rubber and related items also slumped by 22% to \$1.31B in June. The downward trend was also seen with imports of machines, equipment and electrical appliances dropping by a yearly 4% to \$3.9B in June, with imports of transport equipment and parts falling by 1% to \$2.26B and with imports of regular metals decreasing by 35% to \$1.35B. The top three export destinations were the UAE, China, Singapore, India, and Egypt. The top three import destinations were China, the USA, Germany, South Korea and Japan.

Saudi Arabia consistently upped its oil output throughout Q2 2015. After the huge leap in Saudi Arabian oil during the month of March, crude oil production rose again to 10,308 million barrels per day (mbpd) in April, to 10,333 mbpd in May and to 10,564 mbpd in June. The kingdom is still upping its production in order to preserve market share in a context of low oil prices and has to tend to local demand which reached an all-time high of 2.98 mbpd in June. According to the Saudi Arabian Monetary Agency (SAMA), the average price of a barrel of Saudi Arabian oil (Arab Light) fell from \$62.6 in May to \$60.9 in June.

With the absence of regular data regarding government spending and government revenues, bank claims on the public sector serve as an indicator of fiscal policy. According to central bank figures, bank claims on the public sector stopped posting annual double-digit growths since September 2014, after June's slump in oil prices. Lower oil prices as well as lower non-oil exports continued to reflect on the central bank's reserve assets. Reserve assets at the central bank declined by an annual 9.5% and a quarterly 3.7% in Q2 2015 to reach \$672.11B. In fact, the kingdom is tapping into these reserves in order to continue to fund the spending on wages, projects and the intervention in Yemen. The kingdom used up \$65B of reserve assets since oil prices started to fall.

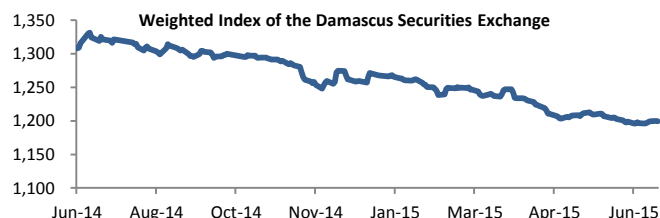
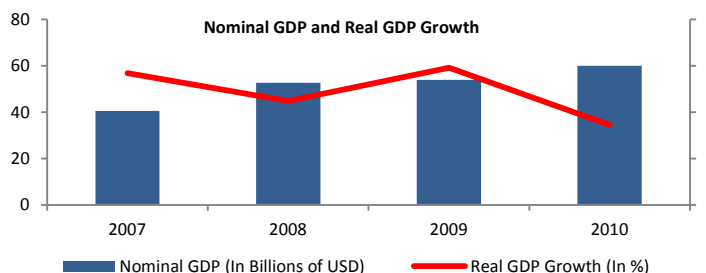
Despite the opening of the bourse to foreigners in June, The TADAWUL All Share Index (TASI) closed at a level of 9,086.89 points in the first half of 2015 (H1 2015), down by 4.48% y-o-y and up by 9.04% y-t-d. The total value of shares reached \$278.33B, down by 7.08% y-o-y while the number of traded shares reached 38,783.72 billion shares compared to 38,433.90 billion shares in the same period last year.

¹ Loan to value cap has been introduced back in 2014

Syria Macro and Equity Market

Adapting the Economy to the State of War

Macroeconomic and Equity Market Indicators



The Syrian regime continued to suffer losses in the second quarter of 2015 (Q2 2015). In April, opposition groups captured the Nasib border crossing, which used to be the only functioning crossing between Syria and Jordan. This crossing was also the only gateway for Lebanese agricultural exports to reach Jordan, Iraq and the Gulf Cooperation Countries. The shutdown of this crossing dealt a rough blow to the Syrian government and so did the capture of the city of Palmyra and the last border crossing with Iraq by Islamic State fighters in May. Tensions also broke in June when the Kurds took over Tal Abyad, located at the border with Turkey, and Ain Issa located to the west of Tal Abyad.

The Syrian economy is surely suffering from the intensifying conflict as shown by the latest developments in the energy sector. The price of gasoline has been upped once again from 130 SYP per liter to 140 SYP per liter and the price of one ton of fuel oil has been increased from 90,000 SYP to 105,000 SYP. The latest figures indicate that the direct and indirect damages to the oil sector amount to \$27B while the subsequent burden on the government is estimated at a minimum of \$5B per year. The imports of oil by land for the industrial sector allowed for a period of three months expired back in March. The renewal of this procedure will be studied as the ministry of petroleum and mineral resources aims to eventually halt imports and be able to provide the necessary energy resources for all sectors itself.

The Association for Chemical Products noted that the total production value of its affiliated companies during the first half of 2015 (H1 2015) totaled 4.5B SYP, much lower than the planned 13B SYP. This is a direct consequence of the sabotage and destruction which drove several companies out of service such as the glass company of Aleppo, the Tyre Company in Hama, the Cleaning Company in the outskirts of Damascus, the Plastic Company in Aleppo, the Paper Company in Deir el Zor and the Rubber Company in Aleppo.

The agriculture sector is also having its share of trouble due to the war. In April, the ministry of agriculture was compelled to increase the price of fertilizers sold to farmers, some types by 30%, others by 46% and 50%. In fact, the price of establishing one greenhouse rose to 250,000 SYP compared to no more than 50,000 SYP before the war. In Tartous, the number of licensed greenhouses for the season 2014-2015 dropped from 125,000 before the crisis to 109,000 and the number of workers in that field also fell from 25,000 families in 2010 to 22,000 in 2014. Aside from higher production costs, farmers face financing troubles as agriculture banks have halted loans and as suppliers of fertilizers and other production material no longer sell items on credit.

The Syrian balance of trade revealed a marked deterioration in the first half of the year, especially after the closing of the Nassib border crossing. According to Syrian customs, the value of imports exceeded 908 B SYP while exports amounted to only 67.7 B SYP. Alarmingly, exports cover no more than 7.5% of imports. The weight of

imports exceeded 6.3M tons while the weight of exports was no more than 2.7M tons. In H1 2015, 918 cases were investigated by the Syrian customs with the total value of unlawful goods exceeding 684 M SYP. The fees due on those goods totaled 133.6 M SYP, of which only 116.6M SYP were levied and the fines due on those goods amounted to 1.9B SYP, of which only 1.4 B SYP were levied. In July, the President issued a decree according to which a 30% fee is to be imposed on all the imported Turkish goods and materials. The fee will be allocated for the reconstruction of villages in Syria.

The Syrian government is in desperate need for revenues especially as tax evasion grew with the intensifying crisis. Sources estimate the value of tax evasion at more than 400 B SYP/year, a figure which represents around 30% of the total fiscal balance. This is why the ministry of finance is currently drafting legislation to establish the "Bill System". According to this system, every sale of goods and services has to entail the drafting of a bill to be delivered to the consumer. This system allows the consumer to have proof of ownership and to have guarantee of after-sale services, allows the government to track the sales operations on which taxes should be applied, and prevents importers and merchants from tampering with prices and illegally smuggling goods into Syria. The government also sought to alleviate pressures on the treasury by increasing the prices of basic food products, including products imported through the Iranian credit line, by up to 30%. The price of sugar was upped from 100 SYP to 130 SYP and the price of oil has been upped from 275 SYP/liter to 325 SYP/liter.

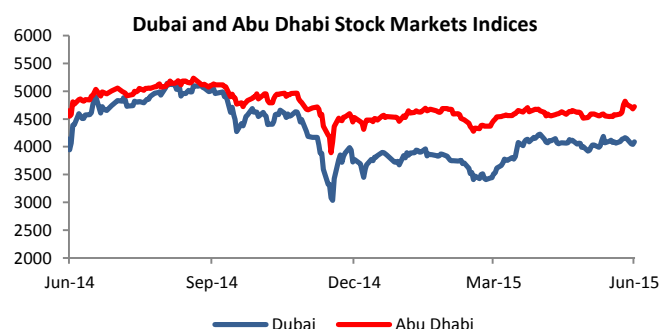
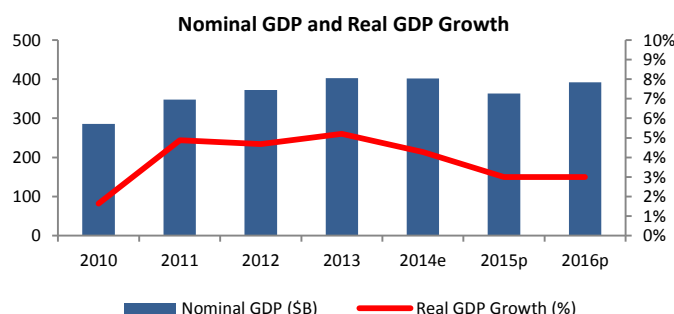
The inflationary pressures and the deterioration of the balance of trade are all a consequence of the depreciation of the Syrian Pound against the dollar. The Syrian Pound depreciated by 21% going from 179.2 SYP for the dollar at the beginning of 2015 to 217.7 SYP for the dollar at the end of June. Syrian banks have been under pressure when it comes to their depositors' base. Authorities are compelling banks to determine the source of the deposits but are also urging banks not to shy away from accepting deposits before establishing proper due-diligence. Banks are also issuing travel bans on debtors who are not paying their dues.

The weighted index of the Damascus Securities Exchange closed at 1,199.56 points in Q2 2015, down by 3.44% from the previous quarter. In Q2 2015, 2 million shares, valued at SYP 285M were traded. The top gainers were Alahliah for Vegetable Oil, Bank Alsharq, and Fransa Bank-Syria with respective gains of 12.25%, 3.65% and 0.20%. The top losing companies were National Insurance Company, Qatar National Bank Syria, Al Baraka Bank Syria, Alahliah for Transport and Cham Bank with losses of 17.45%, 14.32%, 8.96%, 8.47% and 8.32%, respectively.

UAE Macro and Equity Market

The UAE's Robust Economy in a Raging Middle East

Key Macroeconomic and Equity Market Indicators



Mega projects kept on labeling the United Arab Emirates' strategy to establish itself as a regional financial center and a hub for transport, tourism and trade. In fact, Dubai, being the host of the World Expo 2020 is planning to spend \$6.80B on related infrastructure which includes the extension of the Dubai Metro. Also, and as part of the GCC rail network, Abu Dhabi will spend \$10.9B on the Etihad Rail link project. In details, the Emirate's project stretches over 1,200 km from the Saudi border to the Omani border in the south of Fujairah.

Economic data showed that business conditions in the UAE's non-oil private-sector economy continued to improve during the second quarter of 2015. The International Monetary Fund (IMF) expects UAE's real Gross Domestic Product (GDP) to grow by 3.15% in 2015 and by 3.16% in 2016. Moreover, the UAE's Purchasing Managers' Index (PMI), which illustrates the performance of the non-oil producing private sector in the UAE, slowed down from 58.20 in June 2014 to 54.70 in June 2015. However, the rate of business expansion remains strong and the country is setting to continue to perform strongly amid a favorable business environment and a progress in government spending which will help the economy go forward and become less vulnerable to oil price fluctuations.

Looking at inflation for the two main Emirates, the Consumer Price Index (CPI) in Abu Dhabi rose by 5.28% y-o-y whereas Dubai's CPI increased by 4.68% y-o-y from May 2014 to May 2015 due to a rise in prices of "Housing", "Furnishing & Housing equipment", "Beverages & Tobacco" and "Education" in both emirates.

Tourism in Dubai sustained its quick ascent during the second quarter of 2015. Dubai International Airport (DXB) saw the number of passengers reach a record level of 32.38M for the first five months of 2015, a 9.38% yearly increase over the same period. Moreover, according to Ernst & Young hotel benchmark survey report, Dubai hotels maintained their top ranking amongst the Middle East and North Africa (MENA) countries in terms of occupancy rate at 86.0% by May 2015 preserving the same level of the similar period of 2014. Abu Dhabi came second with an 81.0% hotel occupancy rate, one percentage point lower than the same period in 2014.

In contrast, the Emirates' external performance showed signs of weakness over the past six month of 2015. In fact, the Institute of International Finance (IIF) expected the current account balance to fall by 73.14% y-o-y by the end of 2015 to \$13.10B. This can be accredited to the 29.74% annual contraction in the trade balance from \$114.70B in 2014 to \$80.60B in 2015 which in turn can be linked to lower international oil prices from Mid-2014 up until now. This downturn in global oil price had a direct impact on the Emirates' hydrocarbon exports which dropped by 41.52% y-o-y from \$110.10B in 2014 to \$64.40B in 2015. On the non-hydrocarbon export side, a 4.00% increase to

\$266.20B in 2015 is forecasted following the Emirates persistent effort to diversify away from oil. Total imports over the period were also expected to decline by 0.56% y-o-y from \$251.40B in 2014 to \$250.00B in 2015.

Consequently, and in line with the bearish oil prices trend, the UAE's fiscal balance is expected to witness a radical shift and register a deficit of \$13.32B in 2015 y-o-y down from a surplus of \$28.84B. In details, consolidated revenues are estimated to decrease by 29.41% y-o-y from \$132.77B in 2014 to \$93.72B at the end of 2015. This will mostly result from a 40.82% expected slump in hydrocarbon revenues. However, non-hydrocarbon returns are expected to increase from \$30.78B in 2014 to \$33.36B in 2015. On the spending level, consolidated expenditures (excluding net lending) are forecasted to increase by 3.00% up from \$103.92B in 2014 to \$107.04B in 2015.

Monetary developments reflected the robust economic performance of the Emirates. In details, M3 increased by 2.20% during the first quarter of 2015 and by 6.60% y-o-y to \$375.24B. Total bank assets rose by 7.10% y-o-y to \$650.99B in May 2015 up from \$607.95B in May 2014. This hike was brought about by a 7.94% y-o-y increase in credit, reaching \$389.94B by May 2015 compared to \$361.16B in May 2014. Total bank deposits (resident and non-resident customers) increased by 4.78% to \$393.80B in May 2015, compared to \$375.81B in May 2014. In specifics, the yearly 3.80% progress to \$354.44B in total resident deposits was outpaced by the 14.40% increase to \$39.37B in total non-residents deposits in May 2015.

Positive Q1 results for companies in the financial and real estate sector were probably the main aids on trading activity of Dubai and Abu Dhabi's stock markets. This was translated into the indices of both financial stock markets (Dubai and Abu Dhabi) experiencing respective 16.29% and 5.71% q-o-q improvements to 4,086.83 points and 4,723.23 points by end of June 2015. Accordingly, Dubai and Abu Dhabi's market cap broadened by respective amounts of 14.16% and 6.39% from Q1 reaching \$97.76B and \$120.26B.

In terms of trading activity, Dubai's financial market average daily traded volume widened by 39.98% q-o-q to 535.06M shares in Q2 2015 at an average traded value of \$235.84M (compared to an average daily traded volume of 382.25M shares worth \$165.29M in Q1 2015). Similarly, the number of transactions progressed to 499,423, up from 388,732 recorded last quarter. Abu Dhabi experienced similar market dynamics, as the average daily volume surged by 41.49% q-o-q to 121.28M shares worth \$64.15M in Q2 2015 compared to 85.72M stocks valued at \$58.36M in Q1 2015. As for the number of transactions, it tallied to 115,322 by End-June 2015, higher than the 107,256 transactions registered in last quarter.



BLOMINVEST BANK s.a.l.

Research Department
Beirut Central District, Weygand Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 991 784

Fax: +961 1 983 241

research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com

Mirna Chami, Research Analyst
mirna.chami@blominvestbank.com

Riwa Daou, Research Assistant
riwa.daou@blominvestbank.com

Lana Saadeh, Research Assistant
lane.saadeh@blominvestbank.com

David Achdjian, Research Assistant
david.achdjian@blominvestbank.com

Wael Khoury, Research Assistant
wael.khoury@blominvestbank.com

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