

MENA Review and Quarterly Outlook

BLOMINVEST Views on Regional Economic and Financial Developments for Q3 2015

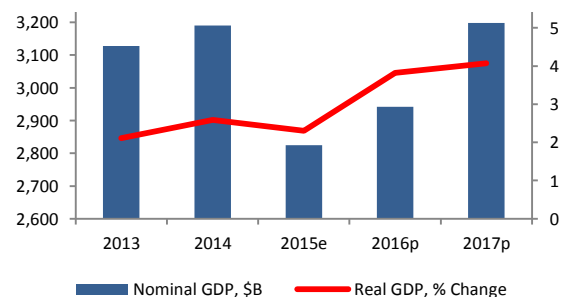
View of the Quarter

The economic outlook of MENA countries remained gloomy during the third quarter of 2015 due to low oil prices and intensifying conflicts in many parts of the region. Economies of oil-exporting countries buckled under tumbling stock markets and distress in both fiscal and external balances. However, their diversification strategies away from oil, mainly in favor of tourism and real estate activities, managed to partially reduce the damaging effect of lower oil prices. In this context, **Saudi Arabia** resorted to debt markets, for the first time since 2007, to ease the spillovers of bearish oil prices on the kingdom's expansionary fiscal policy. Mega-projects to improve infrastructure and bolster the buoyant tourism activity continued to brand the **United Arab Emirates'** strategy away from oil. **Qatar** was no different than the remaining GCC countries in terms of shrinking external trade activity and worsening public finances. However, the country benefitted from its right to host the FIFA in 2020 to boost its private sector, more specifically the construction and retail activities. The misfortune of the oil-exporting countries, caused by the global deterioration in the commodity prices, was in favor of **Jordan's** trade position. However, the Hashemite Kingdom grappled with the substantial burdens deriving from regional conflicts and weak global economic performance on tourism activity, fiscal performance and financial markets. When it comes to the MENA's most populous country, **Egypt** recorded in Q3 2015 resilient economic performance, even if the pace was slower than that of the previous quarters. Remarkable progress in tourism and real estate activities was noted, despite the persistence of security incidents. Although the Egyptian stock market fell under the strains of the bearish trend in global financial markets and the local political and security developments, the lately discovered natural gas field is expected to boost investment sentiment in the coming period. Moving to the war torn **Syria**, the economic status-quo lingered in the country that witnessed, by the end of the third quarter, the intervention of the Russian bear to support the Assad regime. Ending up with **Lebanon**, anti-government protests stole the spotlights between July and September originated by the municipal solid waste crisis.

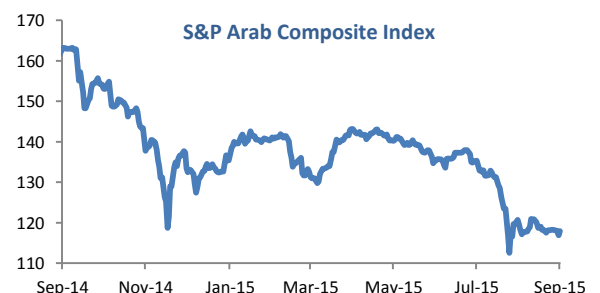
HEADLINES

- 2 Egypt Macro and Equity Market**
Only the Stock Market in Egypt Succumbed to Local and Global Pressures
- 3 Jordan Macro and Equity Market**
Troubled Global Conditions Catch Up with Resilient Jordan
- 4 Lebanon Macro and Equity Market**
Political Difficulties Weigh Down on the Economy
- 5 Qatar Macro and Equity Market**
Economy Posts Growth despite Falling Oil Prices
- 6 Saudi Arabia Macro and Equity Market**
Issuing Debt to Sustain Government Spending
- 7 Syria Macro and Equity Market**
Allies Extended a Lifeline for Assad's Rule
- 8 UAE Macro and Equity Market**
Diversification Strategy Away From Oil on UAE's Main Agenda

MENA GDP Indicators



S&P Arab Composite Index

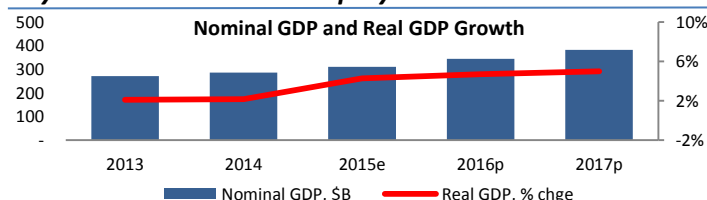


Marwan Mikhael	Head of Research
Mirna Chami	Research Analyst
Riwa Daou	Research Assistant
Lana Saadeh	Research Assistant
David Achdjian	Research Assistant
Wael Khoury	Research Assistant

Egypt Macro and Equity Market

Only the Stock Market in Egypt Succumbed to Local and Global Pressures

Key Macroeconomic and Equity Market Indicator



Egypt will finally start electing a new parliament by mid-October this year after 3 years without a legislative Council of Representatives. During Q3 2015, and after president Al-Sisi reshuffled the cabinet in March 2015 on slackening ministers' performance, the full Cabinet resigned on the 12th of September 2015. But just a week afterwards, the Egyptian president swore in a new Cabinet that must resign once the new parliament convenes by December 2015.

So far, the pace at which security incidents have been taking place in 2015 remained substantially faster than that of 2014. The series of terrorist attacks quickened in the first 8 months of 2015 with Egypt facing almost 935 incidents compared to 353 incidents for the entirety of 2014. Aiming to enforce security, the Egyptian president approved, by mid-August, an anti-terror law that bans media from publishing "false" reports on terrorist attacks that differ from official sources. This law raised controversy in Egypt regarding civil liberties and press freedom and objectivity, especially with the considerable fines imposed.

On the bright side, the discovery of the "super giant" natural gas field, 120 miles off the coast of Egypt, had its positive vibes on the country's energy aspirations. Finding the largest natural gas field in the Mediterranean, by the end of August, was made by the Italian oil and gas company Ente Nazionale Idrocarburi S.p.A. (Eni) and is estimated to approximately cover 38 square miles being home to 30T cubic feet of gas. It is expected that this natural gas field will allow Egypt to increase its energy production to meet the bolstering domestic needs.

Economic activity saw significant improvement during the first nine months of the fiscal year (FY) 2014/15. The progressive economic growth could be directly linked to the broadening final consumption and investment on the demand side, or the recuperation of several economic sectors (such as internal trade, construction, building and real estate activities) on the supply side, despite the continuous weakness of the extractions sector. Thus, Real Gross Domestic Product (GDP) stood at 4.6% during the first three quarters of the FY 2014/15, as compared to 2.2% recorded in the same period of the previous FY.

Favorable international economic developments contained inflation levels during Q1 of the FY 2015/16. The weakening of the euro and the dwindling oil prices may have partly triggered down the average inflation in Egypt. Thus, the annual core inflation rate averaged 8.49% in the first quarter of FY 2014/2015 as compared to an average of 11.22% in Q1 of FY 2013/14.

On the external front, and despite the growing trade and current account deficits, Egypt's Balance of Payments (BoP) remained in positive territory on improving foreign investment and tourism receipts. The BoP's surplus widened from \$1.5B in FY2013/14 to \$3.7B in FY 2014/15. The current account deficit considerably broadened from \$2.7B in FY2013/14 to \$12.2B in FY2014/15, due to widening trade deficit in FY2014/15 by 13.9% to \$38.79B. In fact, exports dropped by 15.6% y-o-y to \$22.06B following a 30.0% yearly decline in petroleum exported products. As for imports, they inched up by 1.1% y-o-y to \$60.84B. In contrast, tourism inflows reached \$7.37B, up from \$5.07B a year earlier. Following Sharm el Sheikh economic summit, Foreign Direct Investments (FDI) reached \$6.37B in FY 2014/15, representing a 54.6% annual upsurge.

Tourist activity revealed substantial improvement. The number of tourist arrivals, of which 76% were from Europe, rose from 2.41M in Q4 of the FY 2013/14 to settle at 2.64M in Q4 of the FY 2014/15.

Likewise, the number of nights progressed by a yearly 19% to 25.86M sending the average number of nights per tourist to 10, up from 9 nights per tourist in Q4 FY 2013/14. Accordingly, the occupancy rates in Cairo 4 and 5-star hotels averaged 47% between January and August 2015 compared to 32% in the first eight months of 2014. Similarly, the average room rate and the rooms' yield posted respective increases of 27.6% and 82.8% y-o-y to \$111 and \$53.

Reforms with regards to government finances are still bearing fruits and are expected to continue through the new FY 2015/16. The long-awaited implementation of the Value Added Tax (VAT), which is a part of the government's fiscal reform program, may soon occur and will be coupled with a simplified tax system for small- and medium-size enterprises. On a different front, the new state budget for FY 2015/16 is targeting a total fiscal deficit of \$31.68B, which is almost 8.9% of the country's GDP. Government revenues are expected to grow by 28% y-o-y to \$78.54B. On the spending side, and with the Ministry of Finance reallocating its expenses in favor of general services such as health care and pensions (50% of the spending will support "direct social protection"), government expenditures are projected to increase by 17.4% to \$109.06B. As the Suez Canal extension project concluded in one year after it was projected to take three, revenues are estimated to reach \$2.47B in FY 2015/16 compared to \$2.41B in the previous year. By the end of September 2015, the International Monetary Fund (IMF) concluded its mission to Egypt and recommended that the country strengthens the budget through the implementation of the VAT and the additional lowering of energy subsidies.

In the monetary sector, net international reserves at Egypt's Central Bank (ECB) reached \$16.34B as of September 2015, down from \$20.08B in June 2015 and \$16.87B in September 2014. This was combined with a further depreciation of the Egyptian pound as the exchange rate reached EGP7.83/USD by the end of September 2015 compared to a previous quote of EGP7.63/USD by the end of June 2015. Commercial banks managed to stretch the volume of credit facilities extended to clients by 22.13% y-o-y by June 2015 to \$90.63M, of which almost 70% were in favor of the industrial sector. Equally, deposits at commercial banks rose by a yearly 21.3% to \$219.66M over the same period. In details, local currency deposits, constituting 70.1% of total deposits surged by 20.2% opposed to an 11.6% growth in foreign currency deposits.

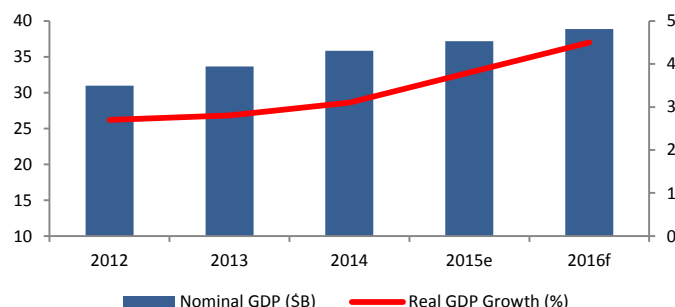
Challenging global economic developments and local political and security conditions collectively stood in the way of the Egyptian stock market reflecting the recovering economic performance. In details, several factors took their toll on EGX 30 performance during the 3rd quarter of 2015, including the Greek economic crisis, the drop in China's capital market, and the steep downturns in global equity markets during the famous "Black Monday", the arrest of the minister of agriculture on corruption allegations and the continuous fear of militant attacks. Thus, the Egyptian index shed 12.4% from the previous quarter to settle at 7332.88 points, widening its year-to-date loss to 17.9% compared to a 6.2% loss in Q2 2015. Market capitalization tightened by 11.6% from the period March-June 2015 to reach \$55.65B by the end of September 2015 with the number of transactions slumping by 13.6% to 898,589 in Q3 2015. The average daily volume traded reached 143.96M shares worth \$43.75M during Q3 2015 compared to 128.45M shares worth \$54.39M recorded in Q2 2014.

Jordan Macro and Equity Market

Troubled Global Conditions Catch Up with Resilient Jordan

Key Macroeconomic and Equity Market Indicators

Nominal GDP and Real GDP Growth



The third quarter of 2015 proved to be a very difficult period to navigate through, as global financial markets experienced volatility hardly seen before, and economies witnessed withdrawals and stagnations on the back of economic and financial developments in Asia and Europe primarily. The Hashemite Kingdom continued to benefit from cheaper energy prices and took the appropriate measures to protect itself from the worsening economic situation.

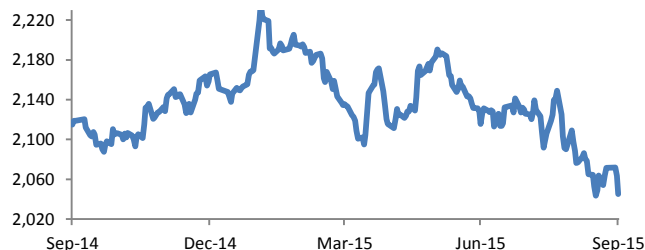
As global projections for GDP growth diminished, International Monetary Fund (IMF) forecasts for 2015 GDP growth were revised to 2.85% from a previous forecast of 3.80% and nominal GDP for the year is expected to stand at \$38.21B (JOD 27.10B). In addition, Jordan's Consumer Price Index (CPI) witnessed a 1.18% y-o-y decrease to 116.81 points.

The continuing deterioration of the global economic situation and regional security threats largely contributed to the poor performance of Jordan's tourism sector throughout the year. As of June 2015, the total number of tourists had registered a 15.42% annual decrease to 2.32M tourists. The Ernst & Young hotel occupancy report indicated that the capital, Amman, revealed a 9 percentage-point decrease in the occupancy rate to 54% by August 2015 in comparison to the same period last year. Similarly, average room rates and room yields in Amman decreased annually by 6.06% and 18.27% by August to respective values of \$155 and \$85. In parallel, travel receipts during the first seven months of 2015 lost 11% y-o-y to reach \$1.13B.

Despite the deficit in the Kingdom's Current Account narrowing by a yearly 3.03% to \$1.60B (JOD 1.14B) by end-June on the back of cheap oil, Jordan's Capital & Financial Account displayed an 18.13% annual decline over the same period to \$791.86M (JOD 561.60M). This resulted in an 18.33% y-o-y widening of the country's Balance of Payments deficit to \$809.20M (JOD 573.90M) during the first six months of 2015.

The performance of Jordan's trade sector, on the contrary, showed notable improvements. The Kingdom is a net importer, especially regarding commodities, and therefore greatly benefited from the bearish trend of prices for energy and metals. During the first seven months of 2015, Jordan's trade deficit experienced a 15.66% contraction to \$7.06B (JOD 5.01B) compared to the same period in 2014. This improvement came about as a result of the 12.49% decline in imports to \$11.54B (JOD 8.19B), which outweighed the 6.97% yearly decrease in total exports (which include re-exports) to \$4.48B (JOD 3.18B). The retreat in the value of imports can be directly linked to the low oil prices witnessed throughout 2015.

Amman Stock Exchange



In details, the value of imports of petroleum crude and gas oil/diesel fell by 36.14% and 64.68% to respective values of \$887.76M (JOD 629.61M) and \$496.82M (JOD 352.35M), respectively, by July 2015. Imports of cereals also lost 32.18% of their value to \$229.33M (JOD 212.29M) over the same period. Regarding exports, the most noteworthy developments were the increase in knitted and crocheted apparel and clothing as of July 2015 by 10.29% y-o-y to \$751.21M (JOD 532.77M). In contrast, exports of mineral and chemical fertilizers lost 22.88% to \$234.10M (JOD 166.03M).

Despite the Kingdom's fiscal surplus in the first quarter of 2015, Jordan recognized a fiscal deficit of 315.14M (JOD 223.5M) by June 2015, inclusive of foreign grants that reached \$417.92M (JOD 589.27M). During the same period in 2014, the fiscal deficit recorded \$499.28M (JOD 354.10M). Net outstanding public debt rose by 4.04% y-o-y to \$30.16B (JOD 21.39B), and accounted for 78.80% of GDP by June 2015, compared to 80.80% during the same period in 2014. In details, outstanding external public debt increased by \$1.49B (JOD 1.06B) between the first six months of 2014 and 2015 to attain \$12.82B (JOD 9.09B), equivalent to 33.50% of GDP, while outstanding domestic public debt decreased by \$321.48M (JOD 228M) to \$17.34B (JOD 12.30B), equivalent to 45.30% of GDP.

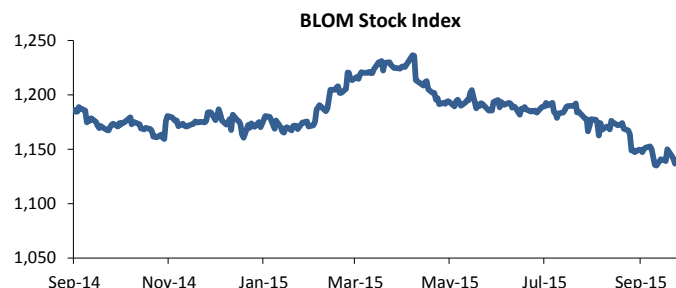
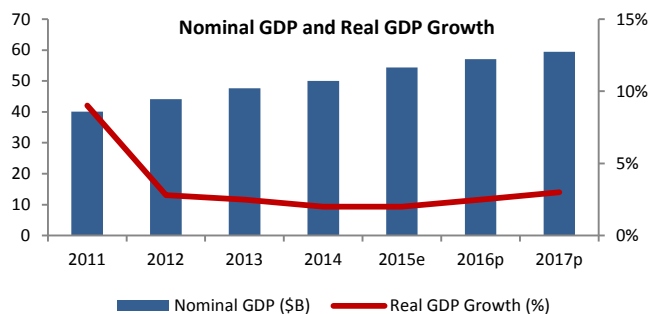
Developments in the Kingdom's monetary sector included a 6.25% y-t-d uptick in money supply M2 to \$43.81B during the first seven months of 2015. As of July 2015, licensed banks had extended an additional 5.20% of credit facilities y-o-y, for a total of \$28.60B (JOD 20.29B). Over the same period, total deposits at licensed banks gained 5.70% during the year to \$45.09B (JOD 31.98B). Meanwhile, foreign currency reserves at the Central Bank of Jordan experienced an \$862.9M rise by end-July to stand at \$14.94B. This level accounts for roughly 7.8 months of the Kingdom's imports. In a bid to spur economic spending and investment sentiment, the Central Bank of Jordan (CBJ) lowered interest rates by a further 25 bps on July 9th, resulting in y-t-d decreases of 50 bps on the re-discount rate and the overnight repo rate to 3.75% and 3.50%, respectively. The main interest rate now stands at 2.50%.

The performance of the Amman Stock Exchange was reflective of the global equity market, as the ASE lost 3.93% by end-September. The bourse ended the third quarter at 2,080.41 points, with a market cap of \$24.33B (JOD 17.25B), compared to \$25.70B by September 2014. However, we notice an increasing trend in the number of shares traded and their values by 21.12% and 41.01% to 2.04B shares worth \$3.39B (JOD 2.41B), indicating the existence of a bearish market.

Lebanon Macro and Equity Market

Political Difficulties Weigh Down on the Economy

Key Macroeconomic and Equity Market Indicators



The municipal solid waste crisis has been the main highlight of the third quarter (Q3) in Lebanon. The forceful closing of the Naameh landfill resulted in trash being piled up on the streets, with no solution being put in place yet. Hence, activists have been protesting on the streets, pressuring the government to find a solution to the waste problem.

The International Monetary Fund (IMF) decreased its forecasted economic growth rate for 2015 from 2.5% to 2%. Similarly, the BLOM Purchasing Managers' Index remained below the 50 mark, at an average of 48.4 points in Q3 lower than the average 48.8 points recorded in the second quarter of 2015.

The deflationary trend witnessed in Lebanon continued in the first eight months of 2015 as consumer prices declined by 4.60% year-on-year (y-o-y) to 96.37% by August 2015. The overall economic slowdown, the decline in oil prices, and the depreciation of the Euro against the dollar, are the main factors causing this deflationary pressure. Moreover, the fall in health prices since August 2014, following the Ministry of Health setting quotas on medicine prices, slashing them by up to 30% as of April 2014 has held back prices as well. "Food and non-alcoholic beverages" sub-index (20.6% of CPI) decreased by 1.17% y-o-y by August 2015. Moreover, transportation sub-index (13.1% of CPI) and "water, electricity, gas & other fuels" sub-index (11.9% of CPI), witnessed a yearly fall of 11.39% and 22.59%, respectively.

Looking at the real estate sector, total transactions (local and foreign) declined 12.18% annually to 51,572 worth \$5.77B, by September 2015. In contrast, foreigners' share of total real estate transactions went up yearly from 1.53% to 2.27% in the first 9 months of 2015. This improvement possibly came about as security developments settled in 2015, which positively impacted tourism activity and foreign investors' sentiment.

Similarly, construction remained on its downtrend, with the number of permits falling 12.51% y-o-y to 11,227 by September. Noting that permits are usually issued at least 6 months after applications are filed, the drop in construction activity was due to the ongoing slowdown in the whole economy.

As for tourism, the number of incomers reached a 3-year high, as the Lebanese security scene preserved its stability. According to the Ministry of Tourism, the number of tourist arrivals surged by a yearly 16.03% to 1.18M by September 2015. Tourist spending in Lebanon grew 5% y-o-y in the first nine of 2015, according to Global Blue. Accordingly, hotel occupancy progressed, with the average rate adding 6 percentage points to 56% by September. Average room rate and average room yield inched up 4.5% and 17.20% to \$179 and \$101, respectively.

Lebanon's BoP remained in the red for the first eight months of 2015, recording a deficit of \$1.65B, almost four times higher than the \$432.9M recorded a year earlier. The decline in capital inflows and Foreign Direct Investment (FDIs), as a result of the ongoing domestic developments and the regional upheavals, are the main reasons behind this deficit. However, the trade deficit narrowed by 19.07% y-o-y by August, to record \$9.57B due to a 17.75% decrease in overall imports outpacing the 10.78% decline in total exports. The prominent trend of both the depreciating Euro and falling international oil prices are the main factors behind the contractionary trade deficit drift being registered since the start of the year.

Fiscal deficit widened 33.29% yearly to \$1.78B in the first half of 2015; hence Primary Surplus dropped to \$475M compared to a higher primary surplus of \$1.09B, during the same period of 2014. This was primarily driven by a 16.60% decline in total revenues exceeding the 12.64% drop in total expenditures. The drop in revenues came as a result of the 11.88% decrease in revenues coming from taxes on income, profit, capital gains, and property, and a 25.33% plunge in VAT revenues. The main decrease in expenditures was due to the 46.76% plummet in EdL transfers. The deficit led Gross public debt (GPD) to broaden by 5.40% y-o-y to reach \$69.19B or 142.12% of Lebanon's GDP by July 2015.

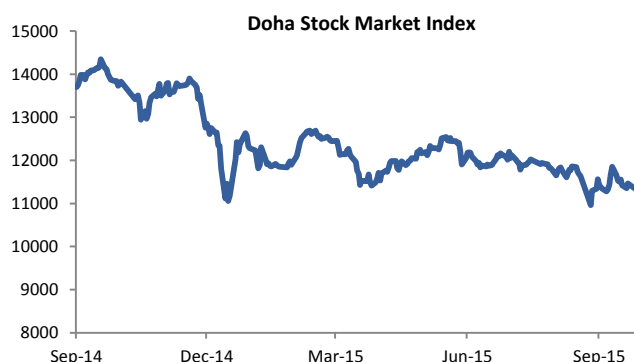
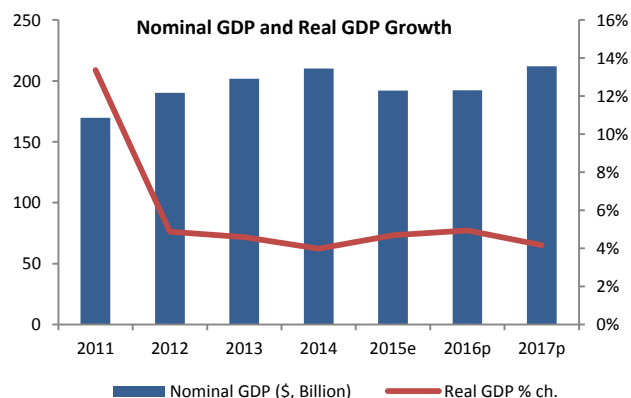
The monetary front remained one of the most important mainstays supporting the economy, as BDL's total assets increased 1.04% q-o-q, to stand at \$91.63B by the end of Q3 2015. However, its foreign currency reserves narrowed 1.57% during the same period to \$38.25B. Total assets at commercial banks expanded 3.37% since year start, to \$181.62B by August.

The Beirut Stock Exchange retreated in the third quarter of 2015, where the BLOM Stock Index (BSI) dropped 3.53% q-o-q, to 1,147.33 points end of September, 2015. Trade occurred at a higher average volume of 263,922 shares worth \$2.61M, compared to 168,932 shares worth \$1.70M, the previous quarter. Market capitalization narrowed from \$10.01B to stand at \$9.53B at the end of the third quarter of 2015, where 1.25M shares of Audi preferred shares class "E" were delisted.

Qatar Macro and Equity Market

Economy Posts Growth despite Falling Oil Prices

Key Macroeconomic and Equity Market Indicator



For the first time, Qatar has deployed ground forces in Yemen, dispatching 1,000 troops to battle rebels in an oil-rich central province. This deployment marks a major escalation by the Saudi-led coalition that has been bombing the rebels from the air since March.

Concerning the World Cup, FIFA president Sepp Blatter had said that, out of economic interests, France and Germany applied political pressure to award the World Cup to Qatar.

Preparation to this important event was partly behind the 4.8% year-on-year (y-o-y) growth in Qatar's real GDP in the second quarter (Q2) of 2015. GDP growth was driven by the non-hydrocarbon sector, where the Real Gross Value Added (GVA) of the non-mining and quarrying sector grew by 9.1%. This in turn was enhanced by double-digit rises seen mainly in construction, trading, hospitality and financial sectors. Qatar's retail sector is expected to witness the opening of 12 new malls in the next 4 years, resulting in over 1.3M square meters of additional retail space by 2019. Meanwhile, real GVA of the mining and quarrying sector, with a 50.50% share of GDP, showed a 0.9% yearly rise.

Inflation stood at 1.5% y-o-y in Q3 2015, influenced by 2.1% and 2.5% price rises in "Housing, Water, Electricity & Gas" (21.89% weight) and "Transport" (14.59%). These increases were partly offset by the 3.6% drop in the "Recreation & Culture" sub-index. Inflation is expected to pick up after the recovery in international food prices in 2016 and higher oil prices in 2017.

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 June, 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 \$108.8/barrel and \$107.6/barrel end of September 2014 to \$47.8/barrel and \$47.0/barrel end of September 2015. Therefore, the "Mining" group, which represents 72.67% of the PPI plunged by 41.9%. The PPI "Manufacturing" subcomponent also showed a yearly decline of 25.9%, while "Electricity and water" sub-index edged up 0.4%.

As for Qatar's trade balance, it tightened by 48.06% y-o-y to a surplus of \$30.19B by end July 2015, as a result of decreasing exports and increasing imports. Declining oil prices drove down the largest component of total exports, hydrocarbons, by 37.53%, inflicting a 35.25% y-o-y plunge in exports to \$48.45B by July 2015. On the other hand, imports augmented by 9.30% y-o-y to \$18.26B, where motor cars and other passenger vehicles were the top imported commodities, going up by a yearly 19.69% to \$1.66B.

On the fiscal front, Qatar's fiscal deficit widened from \$2.54B in Q1 2014 to \$4.73B in Q1 2015, due to the elevated government spending and declining revenues. Total revenues narrowed significantly by 71.07% to \$6.42B, as decreasing oil prices lowered hydrocarbon receipts. Government expenditures also dropped by 54.90% to \$11.15B, by March 2015.

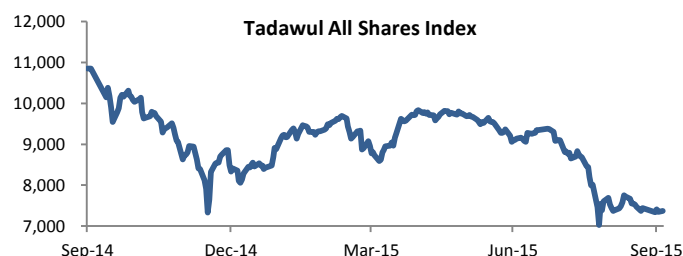
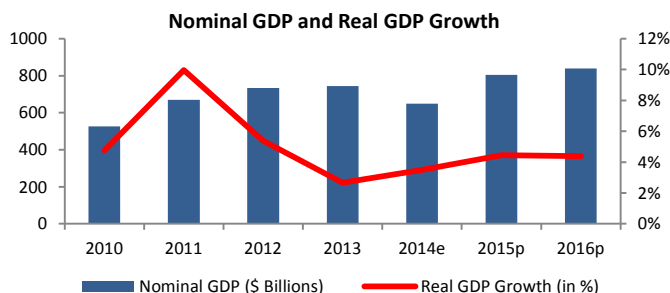
Looking at the monetary sector, total assets at commercial banks grew by 5.46% since end of 2014 to \$286.11B, by August 2015. Private sector credit broadened by 15.14% to \$109.73B, while that of the public sector slightly slipped by 0.45% since year start to \$62.77B by August. Total deposits posted a 4% growth to \$168.78B, due to the 6.45% and 52.76% increases in resident and non-resident private sector deposits that partly offset the 9.77% drop in public sector deposits.

Falling oil prices continued to weigh down on Qatar's bourse, as the Doha Stock Market Index (DSMI) slid by 6.03% q/q to 11,465.22 points end of September 2015. Trade during the third quarter of 2015 occurred at a lower volume of 358.05M shares worth \$4.25B, compared to 758.04M shares worth \$7.91B during Q2, 2015. Worth mentioning, FTSE announced Qatar will be promoted from Frontier to Secondary Emerging, which will likely enhance liquidity and turnover in the market.

Saudi Arabia Macro and Equity Market

Issuing Debt to Sustain Government Spending

Key Macroeconomic and Equity Market Indicators



In the cheap oil era, Saudi Arabia is remaining true to defending its market share on the oil market by not cutting its output as it believes it can sustain lower oil prices more than other players such as US shale producers. The International Energy Agency expects this strategy to eventually lead to a reduction in the excess supply on the oil market but this time from non-OPEC countries. The agency estimates oil production in non-OPEC countries such as the US, Russia and the UK, to decline by 500,000 b/d as early as next year.

The private sector seems to be pulling through despite the drop in oil prices. The Emirates NBD Saudi Arabia PMI managed to post a higher average in Q3 despite lower oil prices. The average PMI reading for Q3 registered 57.6 slightly higher than the 57.1 seen in the past quarter. The improvement in PMI readings was due to higher oil production which in turn boosted the manufacturing activity, included in the PMI.

Inflation reached its highest level of the year in September. According to the Central Department of Statistics and Information, inflation stood at 2.3% in September mainly lifted upwards by rental inflation. Rental inflation also reached its second-highest level of 2015, standing at 4.8% in September. Rental prices are on the up since the market for property sales remains expensive to a large portion of the Saudi population, especially after the introduction of stricter mortgage regulation back in November 2014, whereby one can only borrow 70% of the property's value.

On the external front, trade activity was less pronounced during the third quarter of 2015. According to the central department of statistics, the value of non-oil exports declined by a yearly 25% to \$11B while the value of total imports fell by 16% to \$37.9B. In September alone, the top import destinations were China, the US, Germany, South Korea and Japan while the top export destinations were the United Arab Emirates, China, India, Singapore and Qatar. As for oil exports, they totaled 7 million barrels per day during the month of August, increasing by a yearly 5%.

Moreover, oil production and oil demand increased in the Kingdom despite the global supply glut. In August, Saudi Arabia's crude oil production reached 10.3 million barrels per day up by a yearly 4%. The increase in oil production confirms yet again that Saudi Arabia's priority is to keep its market share rather than contribute to lowering oil supply. According to OPEC, local oil demand in August rose by around 5% to 2.86 million barrels per day. Local oil demand was boosted by higher demand from the transportation sector, especially in aviation, due to end of summer holidays. Demand for fuel oil and "direct crude for burning" was linked to additional summer power use, especially the usage of air conditioning.

As 90% of Saudi Arabia's budget resources stem from oil, the fiscal balance is a critical issue amidst the plunge in oil prices. The kingdom wants to maintain infrastructure spending in order to support economic growth, but with lower revenues, the fiscal balance is strained. In this regard, the IMF has urged the Kingdom to introduce VAT, cut electricity subsidies and reduce wages. The IMF also estimates that the Saudi Arabian fiscal deficit will stand at \$150B or 20% of GDP this year.

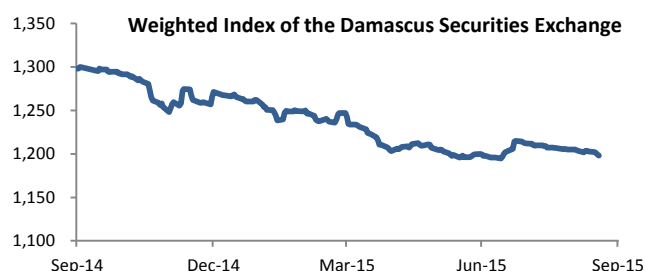
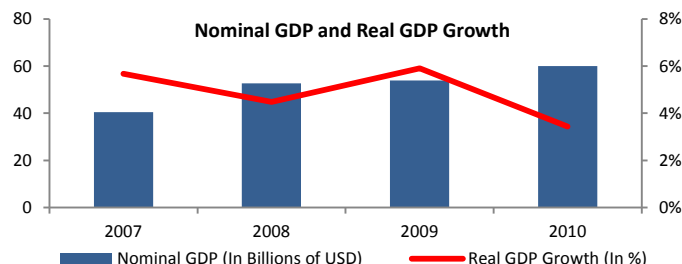
To sustain heavy government spending in a context of low oil prices, Saudi Arabia turned to debt markets and to the country's foreign reserve assets. The government started issuing bonds to finance itself: The value of issued bonds amounted to \$5.33B and was bought by local banks and institutions. There were three tranches in the issuance with bonds maturing in five, seven and ten years. Cheaper oil also implies lower entries of foreign reserves into the country. In response to that the Saudi Arabian Monetary Agency, the country's central bank, reduced its investments in foreign securities to the lowest since Q1 2013 to \$445.93B in Q3 2015. With this, SAMA's total reserve assets reached \$654.5B in Q3 2015, down by 12% from the peak reached in Q3 2014.

Like its fellow Middle Eastern markets, the Tadawul Stock Exchange plunged in Q3 2015 on account of lower oil prices. Losses on the Tadawul Stock Exchange were also a result of Fitch's decision to cut its outlook for Saudi Arabia's debt from stable to negative in August. The Tadawul All Share Index (TASI) settled at 7,404.14 points, down by a yearly 32% and by 11% since year-start. In the first nine months of 2015, total market capitalization totaled \$444.54B also recording a yearly double-digit decrease of 25%. The number of traded shares totaled 49.99 billion in Q3 2015 compared to 54.03 billion shares in the same period last year. The value of traded shares also fell by a yearly 20% to \$353.02B.

Syria Macro and Equity Market

Allies Extended a Lifeline for Assad's Rule

Macroeconomic and Equity Market Indicators



In the third quarter of 2015 (Q3 2015), the regime of Bashar el Assad continued to rely heavily on its allies Russia and Iran. Russia deployed its aircrafts and tanks in Syria in order to support the regime in its battle against the opposition. As for Iran, it extended a new \$1B credit line through its state-owned Export Development Bank of Iran to the Syrian Commercial Bank. This new credit line would be the second Iranian assistance after the \$3.6B lent back in July 2013. With the costly war, the fresh cash will be used to finance imports and new projects.

The regime is not only counting on its allies but is also counting on implementing popular legislation amidst tough times. In September, President Assad issued decrees according to which the sum of SYP 2,500 is to be added to the monthly salaries of civil servants and military personnel working in ministries, municipalities and all government owned institutions. The minimum salary exempt from taxes on wages and salaries was also raised from SYP 10,000 to SYP 15,000. The overall minimum wage and the minimum wage for private sector workers were also increased to SYP 16,175. The announced salary increases will go into effect as of October 1st.

The Syrian population's purchasing power is in dire need of support as the war rages on. According to the World Bank, average inflation surged to 90% in 2013, 29% in 2014 and is estimated to reach 30% in 2015. The soaring inflation is linked to trade disruptions, shortages and the sharp depreciation of the Syrian pound. The Syrian pound depreciated by 44% from an average of 152.44 to the dollar in Q3 2014 to 219.29 to the dollar in Q3 2015.

As much as the regime is trying to present supportive measures the war is still having a devastating impact on the core sector of oil. The Syrian ministry of oil and mineral resources recently put the losses of the sector at over \$50B since the war erupted. The crudes processed at the Homs and Banyas refineries totaled 2,970 metric tons of which 2,912 were sold. The oil sector is key for Syria's economy and its decline is partly behind the 15.4% average contraction in GDP seen over the period 2011 -2014 and the expected 16% contraction in 2015. According to the World Bank, oil production slumped from 368,000 barrels/day in 2010 to 40,000 barrels/day in 2015.

Energy shortages are compelling ministries to call for rationing energy use and are leading to below-potential electricity production. The ministry of industry called on all its affiliates to cut down on their oil and fuel consumption as well as their overall maintenance costs. As for the state-owned electricity company, it is suffering from energy shortages. Recent official figures put the electricity production at 2,000 megawatts, below the potential 5,000 megawatts.

The trade embargo imposed on Syria and the trade disruptions brought by the raging war weighed negatively on its ports' activity. Activity at the port of Tartous totaled 2.4 million tons up to 13/09/2015 compared to 3.81 million tons in the same period last year. Exports amounted to 514,000 tons compared to 675,000 tons in 2014. Exports mainly consisted of phosphate, cars, containers and food products. Imports also fell from 3.14 million tons in 2014 to 1.89 tons in 2015 and consisted of iron, wood, corn, coal and sugar. With slower import and export activities, the revenues of the company managing the port fell SYP 3.1 billion in 2014 to SYP 2.8 billion.

According to the World Bank, the fiscal cuts made by the Syrian government were not enough to counter the sharp fall in revenues. The fiscal deficit grew by an average of 14% of GDP during 2011-2014; that percentage is expected to rise to 22% in 2015. Total revenues reached their ultimate bottom of below 6% of GDP in 2014 and 2015 as oil and tax revenues were slashed.

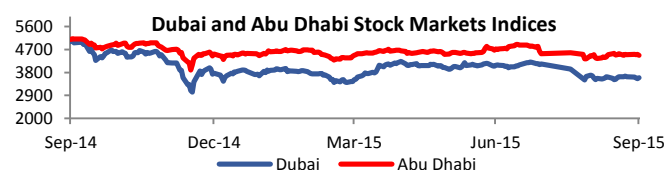
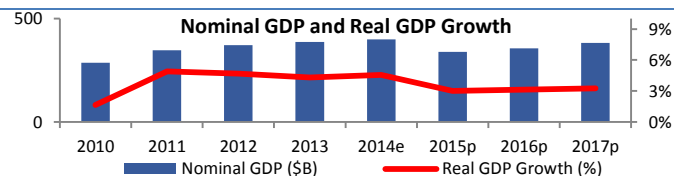
The generalized economic degradation negatively impacts the business of commercial banks and the Central Bank of Syria. Many debtors are unable to repay their loans on time which is compelling the Central Bank to work on a scheme that would offer debtors easiness in repayment. The real estate bank followed suit and allowed shaky debtors to reschedule their debts over a five year span in case they repaid no less than 25% of the initial borrowed amount, all while keeping the same interest rate agreed upon at the time the loan was disbursed.

The Damascus Securities Exchange Weighted Index ended the quarter at 1,199.32 points, down from 1,212.07 at the end of July. 2.14 million shares, worth SYP 337 million, were traded throughout the quarter on the Damascus Securities Exchange.

UAE Macro and Equity Market

Diversification Strategy Away From Oil on UAE's Main Agenda

Key Macroeconomic and Equity Market Indicators



Similar to other oil exporters, the United Arab Emirates (UAE) are caught in this current of low commodities' prices. However, Dubai in specific is moving forward with its diversification strategy away from oil as several mega projects are in the pipeline along with newly implemented legislations. To list a few, Dubai launched the "Museum of the Future", the "Bluwaters Island", the "Dubai Creek Harbour", and Dubai Water Canal. In addition, the \$1.4B "Royal Atlantis Resort and Residence" being in its early stages, was recently named in the top 10 global influencers for new luxury developments. A new legislative policy is also on the works in Dubai, to be implemented in November. In details, the legislation aims the support of private investments in order to expand infrastructure, including Maktoum International (DWC), the city's metro and towers associated with 2020 World Expo site. In Abu Dhabi, a new policy that sets affordable housing targets for developers could be introduced before year end. Quotas will be set to developers to achieve 20% of affordable houses within new housing projects.

On the economic level, the estimated real GDP growth, revised downwards by the International Monetary Fund (IMF), stands at 3% in 2015, significantly lower than the 4.57% recorded in 2014. This goes in line with the 45% fall in international oil prices since June 2014, noting that about 60% of the UAE government revenues were generated from the oil and gas sector in 2014. In another context, the UAE's Purchasing Managers' Index (PMI), which illustrated the performance of the non-oil producing private sector, declined from 57.6 in September 2014 to 56.0 in September 2015, yet still indicative of solid business expansion. The decline in the PMI is mainly attributed to new export levels falling for first time since May 2010 and jobs' growth easing to a six-month low. Looking at the average inflation for the two largest Emirates by August 2015, Consumer Price Index (CPI) in Abu Dhabi added 6.12% y-o-y to 137.24 while Dubai's CPI increased by 4.41% y-o-y to 126.02. In Abu Dhabi and Dubai, the main rise in prices was in "Housing and utility costs", "Furniture and Household Goods", "Education", and "Restaurant and Hotels".

As for tourism, it's not surprising that Dubai International (DXB), the world's number one airport for international passengers, had won two awards in the past several months, of which the best airport in the Middle East and the first rank in the World Routes Marketing Award 2015. In terms of passenger traffic, it progressed by a yearly 12.9% to 44.98M up to July 2015, compared to 39.83M over the same period last year. Improvement can also be seen regarding Al Maktoum International (DWC) as cargo volumes continue to rise sharply in the first half of the year. In details, freight volume in tonnage jumped by 42% yearly by June 2015 to 443,012 tons. The Emirates' hotel industry kept on showing healthy activity, as Dubai's hotel (4 and 5 stars) occupancy rate up ticked by 1 percentage point (p.p.) y-o-y to 79% by September 2015 while the average room rate (AVR) dropped by 6.7% annually to \$243 over the same period. Notably, the 79% level coupled with an AVR of \$243 is still considered to be the highest in the region. Abu Dhabi's hotel occupancy rate wasn't far off, holding 3rd place at 76% (1 p.p. yearly decline) by September 2015, with an AVR of \$173 (same level as last year).

The biggest impact of the drastic decline in international oil prices is expected to hit Emirates external position. Accordingly, UAE's current account balance (including services, income and transfers) is expected to narrow by a yearly 80.27% to \$10.71B by end 2015.

This could be mainly attributed to the 37.62% estimated annual tightening of UAE's trade surplus from \$130.4B in 2014 to \$81.32B in 2015. Even though total imports are projected to drop over the same period by 5.84% y-o-y to \$226.36B, trade surplus will probably contract due to the 17.02% decrease in overall exports (hydrocarbons and non-hydrocarbons). In the same context, hydrocarbon exports are expected to drop to \$61.43B in 2015. As for non-hydrocarbon exports, an annual 4.99% decline is forecasted to \$246.21B.

Likewise, the UAE's fiscal performance heavily waned. Consequently, the Institute of International Finance (IIF) forecasted that the consolidated fiscal primary balance (excluding net lending) will register a deficit of \$14.95B (4.2% of GDP) by the end of 2015, down from a surplus of \$19.92B (5.0% of GDP) in 2014. In details, hydrocarbon revenues are expected to contract by almost half from \$102.50B (67.92% of total revenues) in 2014 to \$61.12B (55.81% of total revenues) in 2015. As for non-hydrocarbon income, they are forecasted to stay relatively stable, at a \$48B level at year end. Accordingly, total consolidated revenues may downturn by 27.44% yearly to \$109.51B, over the same period. The consolidated government expenditures (excluding net lending) are projected to fall by an annual 5.00% to \$124.46B in 2015, from a higher level of \$131.01B registered the previous year.

On the monetary front, money supply (M3) declined 1% from July 2015 to \$363.49B in August 2015. This drop was brought about by a reduced M2 (0.8% downtick over the same period) coupled with a 2.6% decrease in government deposits. Robust banking activity was depicted in the Emirates as illustrated by the 5.18% yearly growth in total assets, from \$629.80B by August 2015 to \$662.42B by August of this year. Furthermore, lending activity showed an improvement as it increased by an annual 4.59% to reach \$367.79B over the same period. Likewise total deposits (resident and non-resident) showed positive momentum, increasing by 1.15% y-o-y to \$389.86B by August. In details, this slight progress was attributed to the 21.14% yearly surge to \$43.72B by August in total non-resident deposits which outpaced the marginal 0.91% annual decline to \$346.14B in total resident deposits, during the same period.

A 23.19% decline in Brent crude oil price during Q3, 2015 due to continued market share protection from OPEC was probably the reason for the buffers on trading activity of Dubai and Abu Dhabi's bourses. This was translated into the indices of both financial stock markets (Dubai and Abu Dhabi) witnessing respective 12.08% and 5.23% quarter-over-quarter falls to 3,593.28 points and 4,475.98 points by the end of September. Accordingly, Dubai and Abu Dhabi's market capitalization narrowed from \$97.76B and \$120.26B by June 30, 2015 to \$88.97B and \$115.65B by September 30, 2015, respectively. In terms of trading activity, Dubai's financial market average daily traded volume narrowed by 59.84% to 214.88M shares in Q3 at an average traded value of \$101.89M. Similarly, the number of transactions downturned to 258,950 down from 499,423 registered last quarter. Abu Dhabi experienced similar market dynamics, as the average daily volume fell by 27.03% quarter-over-quarter to 88.51M shares worth \$59.17M in Q3, 2015 compared to 121.28M shares valued at \$64.15M in Q2, 2015. As for the number of transactions, it summed up to 91,149 by end September, lower than the 115,322 transactions recorded by June 30, 2015.

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

IMPORTANT DISCLAIMER

This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. BlomInvest SAL can have investment banking and other business relationships with the companies covered by our research. We may seek investment banking or other business from the covered companies referred to in this research. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research. We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Copyright 2012 BlomInvest SAL.

No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of BlomInvest SAL.