

Lebanese Eurobonds Exhibit Fragile Stability as Reform Hopes Contend with Market Skepticism



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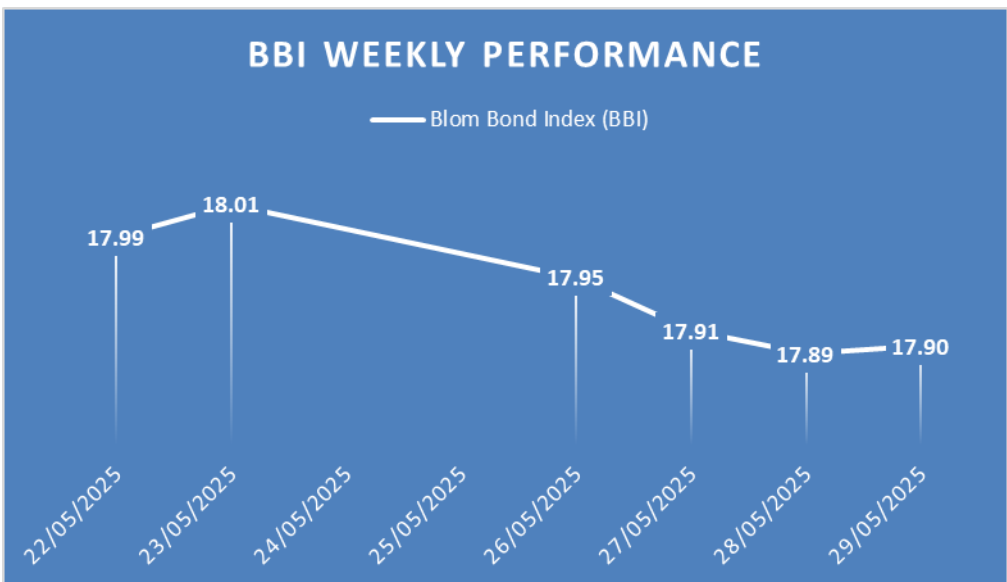
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	29/05/2025	22/05/2025	Change	Year to Date
BLOM Bond Index (BBI)	17.90	17.99	-0.49%	34.68%
Weighted Yield	100.08%	98.74%	1.36%	-3.36%
Weighted Spread	9,579.77	9,446.01	1.42%	-3.51%

The **BLOM Bond Index (BBI)**, which tracks Lebanese government Eurobonds (excluding coupon payments), **fell by 0.5% in the week ending 29 May 2025 to 17.9 points.**



As shown in the chart above, the **BBI experienced an overall slight decline throughout the week**, starting at 17.99 on 22/05/2025, peaking at 18.01 on 23/05/2025, and then generally decreasing to 17.9 by 29/05/2025. Despite the marginal decline, it remained at a relatively strong level.

One important development is that the international credit rating agency **Moody's** completed a periodic review of Lebanon's credit ratings and **kept its sovereign rating at "C", reflecting expectations of bondholder losses exceeding 65%** following the 2020 default. Despite some reform progress under the new government—including changes to banking secrecy laws and a draft law to restructure the banking sector—Moody's maintained its cautious stance, arguing that reform efforts have repeatedly stalled due to unresolved disputes over how to distribute over \$70 billion in losses among the government, central bank, lenders, and depositors. The agency noted that any potential rating upgrade would depend on the successful implementation of comprehensive reforms and debt restructuring. Interestingly, **the reaffirmation of a 65% loss estimate implies a recovery value of around 35 cents on the dollar, which is notably higher than current market prices around 18 cents, potentially offering upward support to bond prices.** Hence, the relatively strong level of bonds at the start of the mentioned period may reflect investor optimism around improved recovery prospects.

On the Lebanese political front, **Prime Minister Nawaf Salam**, speaking from the Arab Media Summit in Dubai, stated: *"Our project is founded on the parallel tracks of reform and sovereignty. Sovereignty requires that weapons be held solely by the state and that Lebanon move beyond the duality of arms that once created a duality in decision-making."* This message signals a renewed political will to restore state authority—a key prerequisite for unlocking international support and advancing debt restructuring. For Lebanese Eurobonds, the effective implementation of such a stance could support bond performance by reinforcing investor confidence in the state's ability to reassert control and pursue reforms.

The Lebanese government has indeed made some progress toward eliminating non-state arms and reinforcing state sovereignty. In an interview with *The Wall Street Journal* (WSJ), Salam said *"The Lebanese government has achieved roughly 80% of its objectives in disarming militias in the southernmost areas of the country."* In parallel, authorities have introduced a multi-stage plan to disarm Palestinian armed groups concentrated in refugee camps. This progress has been acknowledged by both U.S. and Israeli officials, who, according to the WSJ report [*"With Israeli Intel, Lebanon Is Dismantling Hezbollah in the South,"*](#) expressed surprise at the pace of developments, crediting them with helping to uphold the fragile truce established in November.

The key question now is whether Lebanon can complete the mission in the south and extend its authority across the rest of the nation. According to the same report, **major obstacles remain**. The Lebanese army, constrained by limited resources and the country's delicate sectarian balance, is unlikely to confront Hezbollah militarily. It has historically avoided direct clashes to prevent igniting internal conflict. Acknowledging this reality, Prime Minister Salam affirmed: ***"We don't want to put the country onto a civil-war track, but believe me, this is not going to affect our commitment to the need to extend and consolidate the authority of the state."***

From a market perspective, these developments have introduced a cautiously optimistic tone. The visible progress in disarmament and the government's assertive messaging have helped support Lebanese Eurobond prices, which remain well above their pre-conflict lows. However, the sustainability of this upward momentum hinges on the government's ability to translate political statements into durable institutional change. **Without concrete follow-through, bond prices may struggle to maintain gains amid persistent structural and security risks.**

Despite these internal developments, regional instability continues to be a major factor. **Israeli violations of the ceasefire agreement with Lebanon persisted** for another week, further undermining regional stability. Concurrently, broader geopolitical tensions remain high as **Israel and Hamas** have yet to reach a ceasefire agreement in Qatar, with **no immediate resolution in sight**. This ongoing deadlock underscores the persistent volatility across the region.

When bond prices go down, yields go up. Consequently, the yield on 5-year bonds rose by 70 basis points to 98%, and the yield on 10-year bonds increased by 20 basis points to 67.2% this week.

	29/05/2025	22/05/2025	Change
JP Morgan EMBI	924.97	919.42	0.60%
5Y LEB	98.00%	97.30%	70
10Y LEB	67.20%	67.00%	20
5Y US	4.00%	4.11%	-11
10Y US	4.43%	4.54%	-11
5Y SPREAD	9,400	9,319	81
10Y SPREAD	6,277	6,246	31

In contrast, in the U.S., Treasury yields declined this week, with 5-year and 10-year bonds falling by 11 basis points each, settling at 4.00% and 4.43%, respectively. The drop came amid ongoing concerns about the strength of the U.S. economy. According to the Commerce Department's Bureau of Economic Analysis in the U.S., the world's biggest economy contracted by 0.2% in the first quarter—a slightly smaller decline than the initial estimate of 0.3%, but still a sign of underlying weakness, especially given that many analysts had expected the preliminary figure to have understated actual growth.

The economic slowdown in the first quarter increases the likelihood that the Federal Reserve may consider rate cuts to support growth, which in turn has contributed to the decline in Treasury yields.

In addition, on Wednesday, the U.S. Court of International Trade ruled that former President Trump's "reciprocal tariffs" on international trade partners were illegal and ordered them to be permanently removed, blocking any future attempts to bring them back. In response, the Trump administration quickly opposed this decision. On Thursday, an appeals court temporarily paused the lower court's decision, allowing the tariffs to stay in place for now.

This back-and-forth created uncertainty in financial markets. Treasury yields briefly rose after the initial court ruling, as investors saw it as a sign of easing trade tensions. But when the appeals court reinstated the tariffs, yields fell again, reflecting renewed concerns about global trade and its impact on the economy. This behavior underscores the role of bonds as safe havens amid uncertainty, with their prices rising and yields falling as investors seek security.

5Y Credit Default Swaps (CDS)

	29/05/2025	22/05/2025
KSA	73.28	77.39
Dubai	58.69	60.82
Brazil	164.53	168.57
Turkey	289.21	266.20

Source: Bloomberg

Maturity	Coupon in %	Prices		Weekly Change	Yields		Weekly Change bps
		29/05/2025	22/05/2025		29/05/2025	22/05/2025	
28/11/2026	6.6	17.272	17.407	-0.78%	183.84%	179.76%	408.22
23/03/2027	6.85	17.274	17.281	-0.04%	147.31%	145.67%	164.00
29/11/2027	6.75	17.269	17.338	-0.40%	107.15%	105.94%	120.49
03/11/2028	6.65	17.257	17.286	-0.17%	80.38%	79.96%	41.69
26/02/2030	6.65	17.257	17.365	-0.62%	62.62%	62.18%	44.25
22/04/2031	7	17.27	17.386	-0.67%	55.82%	55.47%	34.68
23/03/2032	7	17.324	17.41	-0.49%	51.45%	51.20%	24.84
02/11/2035	7.05	17.288	17.383	-0.55%	44.04%	43.84%	20.12
23/03/2037	7.25	17.281	17.382	-0.58%	43.72%	43.49%	22.52

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