CONTACTS

Treasury & Capital Markets

Bechara Serhal
(961-1) 977421
bechara.serhal@banqueaudi.com

Nadine Akkawi
(961-1) 977401
nadine.akkawi@banqueaudi.com

Private Banking

Toufic Aouad
(961-1) 954922
toufic.aouad@bankaudipb.com

Corporate Banking

Khalil Debs
(961-1) 977229
khalil.debs@asib.com

RESEARCH

Marwan Barakat
(961-1) 977409
marwan.barakat@banqueaudi.com

Jamil Naayem
(961-1) 977406
jamil.naayem@banqueaudi.com

Salma Saad Baba
(961-1) 977346
salma.baba@banqueaudi.com

Fadi Kanso
(961-1) 977470
fadi.kanso@banqueaudi.com

Gerard Arabian
(961-1) 964047
gerard.arabian@banqueaudi.com

Farah Nahlawi
(961-1) 959747
farah.nahlawi@banqueaudi.com

Nivine Turyaki
(961-1) 959615
nivine.turyaki@banqueaudi.com

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p.9 REGIONAL CAPITAL MARKETS UNDER DOWNWARD PRICE PRESSURES

A sluggish mood swayed over regional equity markets ahead of the Holy month of Ramadan. Total MENA trading activity dropped by 14.7% week-on-week, and equity prices pursued their downward trajectory, as reflected by a 0.4% retreat in the S&P Pan Arab Composite Index. In parallel, regional bond markets saw downward price movements across the board, as most accounts remained cautious, still digesting the recent issuances and trying to rebalance their books for the new ones waiting in the pipeline. This was reflected by a 7.4% expansion in the Z-spread based Audi compiled MENA bond index, bucking US Treasuries move.

MENA MARKETS: WEEK OF MAY 29 - JUNE 04, 2016

Stock market weekly trend	↓	Bond market weekly trend	↓
Weekly stock price performance	-0.4%	Weekly Z-spread based bond index	+7.4%
Stock market year-to-date trend	↓	Bond market year-to-date trend	↓
YTD stock price performance	-4.3%	YTD Z-spread based bond index	+14.8%

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@banqueaudi.com

ECONOMY

IMF SAYS INVESTMENT IN ARAB COUNTRIES APPEARS TO HAVE BEEN LESS EFFECTIVE IN GENERATING GROWTH THAN IN OTHER EMERGING MARKETS

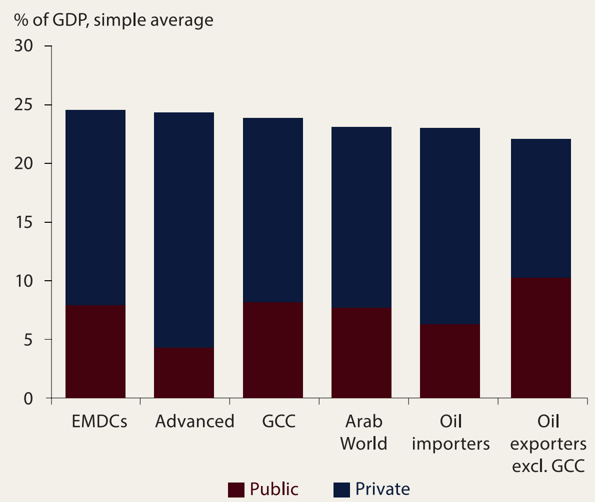
Enhancing public and private investment, but also ensuring that this translates into higher growth and employment, have long been key policy challenges in Arab countries, as per a recent IMF note on investment and growth in the Arab world.

Reflecting an improvement in policies and global conditions, investment rates in Arab countries have increased over the past couple of decades. In spite of this -and notwithstanding significant differences across the region- investment has on average been somewhat weaker than in peer countries and less effective at generating growth. Despite their increase, investment rates in Arab countries have not yet reached those of their peers. At about 23% of GDP, total real investment rates have, on average, lagged other EMDCs by about 2 percentage points over 2000-2014, as per the IMF. They have also been lower, on average, than in advanced economies in spite of a significant decline in public investment rates in these countries over the same period. This gap is, however, relatively small in comparison to the large intra-regional differences.

Private investment, particularly FDI, has underperformed significantly, according to the Fund. And while public capital spending has benefited from high oil prices in resource-rich countries, it has continued to lag in oil importers. Private investment, in particular, has been lower than in other EMDCs. Relatively weak private investment rates have traditionally reflected high political and economic uncertainty as well as less conducive regulatory and institutional environments. Foreign direct investment has also been skewed toward specific countries and sectors. The IMF added that GCC countries attracted almost half of the FDI inflows over the 2000s. And FDI has been highly concentrated in extractive industries (with lower impact on job creation given their highly capital-intensive nature) and the real estate sector, which does not traditionally bring significant productivity gains.

Investment in Arab countries appears to have been less effective in generating growth than in other EMDCs. The increase in investment rates over the past couple of decades has been concomitant with an improvement in the growth performance throughout the region. However, the correlation between real GDP growth and investment during 2000-2014 has been weaker than in other parts of the world, as per the Fund. This was also reflected in the relatively low contribution of total factor productivity to potential growth during this period, which weighted on overall growth performance despite sizable investment efforts, particularly in GCC countries.

AVERAGE REAL INVESTMENT 2000-2014



Source: IMF

Addressing the investment challenge is paramount for promoting higher standards of living and creating jobs for young and rapidly growing populations. Doing so is even more urgent now that the environment is becoming less supportive. Both oil exporters and oil importers are exposed to lower medium-term growth prospects in trade partners and possible higher funding costs associated with the normalization of monetary policy in the US. In addition, lower oil prices will make it difficult for the public sector to continue to drive growth and job creation in oil exporters, highlighting the need for these countries to transition to more diversified, private-sector led growth models. Oil importers need to prepare for spillovers from fiscal adjustment and associated lower growth in their oil-exporting partners. Finally, conflicts throughout the region have also created their own set of investment and growth challenges for countries both directly and indirectly affected.

In this context, the IMF believes the onus will be on policymakers to implement sound macroeconomic policies and accelerate structural reforms to foster higher and more efficient private investment. Policy priorities will vary across the Arab world, but maintaining stable macroeconomic conditions will be key, particularly in the face of a more challenging external environment. Macroeconomic policies will also need to prevent crowding out of the private sector and excessive real exchange rate appreciation, encourage trade openness, and improve access to finance while preserving financial stability. Reforms to improve the business environment, including by refocusing the role of the government, are also required to bolster private sector dynamism, attract FDI, and foster diversification.

Ensuring adequate levels of public investment in a context of limited fiscal space and increasing their efficiency will also be important to unlock private sector growth. While many countries need to scale up infrastructure spending, the focus in GCC countries will be on ring-fencing critical investment outlays in the face of large fiscal adjustment needs. This will entail mobilizing additional non-hydrocarbon domestic resources and rebalancing government outlays away from subsidy and wage bills. Strengthening public investment management will be critical to boost growth dividends.

LOW OIL PRICES TO WEAKEN ECONOMIC OUTLOOK FOR KSA AND LEAD TO A GROWTH OF 1.7% IN 2016 SAYS NCB

According to "Saudi Economic Perspectives" report by National Commercial Bank (NCB), suppressed oil prices would weaken the economic outlook for Saudi Arabia in 2016, which would grow by 1.7%, the lowest since 2009.

In 2015, a moderate business cycle took hold, weighing on non-oil economic activities that grew by 3.6% compared to 4.8% in 2014. This deceleration was driven by lesser oil revenues trickling down into the economy, especially as the government had to reduce spending to minimize the budget deficit.

Nevertheless, real GDP growth at 3.4% was supported by the oil sector, which expanded by a substantial 3.1%, on the back of record production levels above 10 MMBD as the Kingdom utilized its excess capacity to maintain market share amidst rising non-OPEC oil production, namely US shale. In nominal terms, the sharp decline in Arabian light average spot price to US$ 50.2/bbl, 48.3% below 2014’s average, resulted in a significant contraction in nominal GDP by 13.3%, the first contraction since 2009.

Going forward, it is highly likely that oil would remain in a range-bound territory, ending the year below last year’s levels, which would undermine economic growth for this year. Therefore, NCB believes that the oil sector would decelerate significantly to 0.3% this year based on slower growth in Saudi crude production. In contrast, real non-oil GDP sector is expected to moderate to 2.9% this year, yet as government reforms unravel, the sector would be the primary force to maintain the economy on an expansive trend.

The non-oil sector is expected to moderate further this year to below 3%, as the economic slowdown weighs on businesses and consumer confidence alike, as per NCB. The sector would continue to be impacted by the negative spillover effects from collapsing oil revenues and the recent reductions in subsidies. The rationalization of government spending, the only channel to convert the country’s oil wealth into economic development, affected the outlook for business sentiment, evident from NCB Business Optimism Index (BOI), whereby the non-hydrocarbon sector composite index for 2Q 2016 posted the sixth quarterly decline to settle at 21 points, which is also the second lowest level since the inception of the index in 2009.

In an attempt to control spending, the Ministry of Finance stopped awarding contracts since 4Q 2015, which has affected the construction sector. The construction market would seek a greater reliance on private sector initiatives to support a declining projects market. Consequently, the bank expects the value of awarded construction contracts to fall significantly below the SR 200 billion, the weakest level since 2010.

National Commercial Bank believes that inflation would edge higher to average 4.5% in 2016 with domestic inflationary pressures offsetting the positive international dynamics of a resilient US$ and contained global commodity prices. Given the peg of the Saudi Riyal to the US Dollar, the strength of the latter during the last two years had reduced imported inflation on domestic prices. The trade weighted dollar index, which tracks the USD against currencies of six major trading partners, ended 2015 at 98.6 while averaging 96.3 throughout this year, 16.4% higher than 2014's average of 82.7.

UAE'S NON-OIL PRIVATE SECTOR ACTIVITY REGAINS SOME MOMENTUM MIDWAY THROUGH Q2 2016, AS PER EMIRATES NBD

Supported by a pick-up in new business growth, non-oil private sector activity in the UAE regained some momentum midway through the second quarter, according to Emirates NBD. Activity increased at the fastest pace in eight months during May 2016, mainly due to a sharp expansion of output, according to a survey sponsored by Emirates NBD and produced by Markit.

The headline Emirates NBD UAE Purchasing Managers' Index (PMI), a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy, posted 54.0 in May 2016, up from 52.8 in April. The latest figure was the second-highest in six months, albeit still below the long-run series average (54.5). It also signaled acceleration in growth following a slowdown in the previous month.

Nonetheless, data pointed to areas of underlying fragility, as both employment and input buying rose only slightly. The expansion of the latter was the least marked since September 2011. Cost pressures intensified but remained historically subdued, while output prices fell for the seventh month running, as per the report.

The forecast from the Central Bank of the UAE shows a resilient growth for the nation, driven by the non-oil activities which are expected to grow by 3.5% in 2016, while oil GDP is expected to grow by 1.2%. Moreover, a recent study by Visa showed that more than half of UAE professionals are optimistic about future employment opportunities and personal finances as they believe that the country's economic situation would improve in the coming 12 months.

The improvement in the UAE PMI was mainly due to strong growth in output last month, with new business picking up as well, as per Emirates NBD. This confirms Emirates NBD's view that the non-oil sector of the UAE is continuing to expand, albeit at a slower rate than last year. The survey reveals that higher activity underpinned faster improvement in business conditions. Although new order growth picked up, input buying rose only modestly.

The overall improvement in the health of the non-oil sector was driven by higher output in May 2016. The rate of expansion was the quickest since last September, with panelists commenting on new work generated by marketing initiatives, as per the report.

The survey data confirmed that new orders had risen solidly in May. Growth was faster than in April 2016, but remained much slower than the survey average. Contributing to the relative weakness of total new work was a negligible rise in exports, as per the same source. The report noted that despite faster expansions in output and new business, growth of purchasing activity slowed in May. The extent of the slowdown was substantial, with the latest rise the weakest in 56 months. Some panelists indicated that they postponed input buying as their stock levels had been sufficient to cope with demand.

SURVEYS

JORDAN'S REAL GDP GROWTH TO SLOW SLIGHTLY TO 1.9% IN 2016, AS PER EIU

According to a recent report by the EIU, Jordan's attempts to put the economy on a sounder footing are likely to be slowed by nervousness about fomenting public discontent and sluggish economic performance.

As part of a US$ 2 billion IMF stand-by arrangement for 2013-15, the government implemented some structural and fiscal reforms, including eliminating nearly all fuel subsidies, and is pressing ahead with electricity price increases to reduce losses at the state-owned National Electric Power Company (Nepco) and water rate increases. However, political pressure would slow cutbacks in the bloated public-sector payroll (around 20% of current expenditures).

Furthermore, a number of large construction projects are under way, including housing, transport, energy, air travel and the relocation of Aqaba port. Expansion of the electricity grid and development of both the conventional and renewable energy sectors would also help to spur growth over the medium term, although this would be subject to constrained funding in the low energy price environment.

Although tourism has been affected by low oil prices and security risk concerns, it would remain a key focus of government development plans, with major new projects in the pipeline for Aqaba (2016) and the Dead Sea (2017). Export markets would also begin to recover, albeit slowly given continued volatility in traditional markets.

Against this backdrop, the EIU expects real GDP growth to slow slightly, to 1.9%, in 2016, and to accelerate to an annual average of 3.4% in 2017-20. A constrained fiscal position would, however, further limit growth potential.

Regarding inflation, despite some monetary tightening and continued deflation for much of 2016, inflation would rise to an annual average of 1.9% in 2016-20, on the back of domestic demand growth, modest rises in international food and energy prices on average from 2017, and further planned increases in electricity and water tariffs in 2016-17, nearly all the country's energy needs and some food requirements are met by imports.

A strong dollar would, however, limit upward pressure on import prices. However, housing rental prices would continue to feel the impact of the refugee influx on housing demand.

According to the EIU, the Central Bank of Jordan should remain committed to the maintenance of the dollar peg, which, despite the associated lack of flexibility, has helped to instill confidence in monetary policy.

The stock of international reserves (including gold) rose robustly between 2014 and August 2015 reflecting a recovery in aid flows and a pick-up in external borrowing peaking at US$ 17.9 billion, but then dropped to US$ 16 billion in March 2016 (still nine months of import cover) in the absence of renewed international support.

Financial backing from the Gulf Co-operation Council countries (despite low oil prices) and from Western countries and multilateral agencies would help to underpin the level of reserves in 2016-20, providing firm support for the currency.

Looking at the external sector, exports fell in 2015, because of lower potash prices and production, but the far larger size of the import bill which has been falling at a faster pace than export earnings owing to slumping oil prices means that the trade deficit still narrowed, as per the EIU.

With exports still subdued and commodity prices depressed, a similar trend would prevail in 2016 before imports pick up from 2017, supported by strengthening domestic demand and higher global commodity prices. Jordan would increasingly switch to natural gas imports, as well as increased output from domestic renewable sources, which would keep a lid on energy import costs.

Furthermore, tourism revenue has fallen as regional political instability and the impact of a strong dollar have deterred visitors, pushing down services earnings, although they should recover, especially later in the forecast period.

The traditionally large secondary income surplus fell sharply in 2015, but would stabilize thereafter and remain substantial, reflecting the flow of remittances from Jordanians employed in the Gulf and donor grant aid, both of which would continue, albeit at lower levels on average.

The current-account deficit would narrow in 2016, then widen in 2017-18 as oil prices rise before narrowing again in the final years of the forecast period, averaging 8% of GDP in 2016-20, high but below 2011-15 levels.

DUBAI RANKS FOURTH WORLDWIDE IN A GLOBAL RETAIL LIST, AS PER JLL

Dubai ranked fourth worldwide in a global retail list, according to JLL's Destination Retail report.

GCC markets have a strong presence on the global shopping map, as per the same source.

The list is dominated by cities in the Asia Pacific, but locations in the Middle East are strengthening their position as more international retailers establish themselves in the region, the report said.

One-third of the top 15 global retail cities are located in the Middle East, with Dubai placed fourth. Kuwait City was ninth, with Abu Dhabi at 11 and Jeddah and Riyadh tied for 12.

Dubai's 'shopping tourism', thanks in part to hosting the Dubai Shopping Festival for more than 20 years, has seen the emirate become a hub for major retail brands, according to JLL. It also has one of the world's highest levels of retail floor space per capita.

According to the report, GCC markets have large quantities of affordable retail space, supported by franchise structures, which present viable options for international retailers and reduce their operational risk at entry.

Furthermore, the domestic retail market in the Middle East is not as mature as other regions, which allows international brands to enter without too much competition from domestic brands.

According to JLL, shopping demand across the region has spurred some of the highest sales volumes for retailers.

Retail would continue to be a key pillar of the Dubai economy, and JLL's report shows its strategy of attracting leading international retailers is working.

In conclusion, as Dubai looks to welcome 20 million visitors by 2020, retail would play a crucial role in drawing in visitors from all over the globe. The city has an impressive history which is unmatched in the region when it comes to retail. And its position globally can only be enhanced given the high quality retail space on offer to the world's known brands.

CORPORATE NEWS

BAHRAIN TO INVEST US$ 928 MILLION IN HAWAR ISLANDS ECO-TOURISM PROJECT

Bahrain Real Estate Investment (Edamah), the real estate arm of Bahrain Mumtalakat Holding Company, would invest US$ 928 million in the Hawar Islands project that would transform it into an eco-friendly tourism destination.

Extensions on the two-stage project, which is expected to create 3,000 job opportunities, include an eco-friendly development set along 100 hectares of the island’s northern coast.

The first phase of the project would see the addition of a 350-room five star lagoon resort set to open next year and 150 eco-friendly apartments and villas.

The second phase would include a 150-room boutique hotel, a 200-room wellness resort and spa, 155 villas, a bird research centre, a heritage market, and the restoration of the 100-year-old Hawar mosque. It is expected to be completed by end of 2021.

Hawar is a group of 35 islands which comprises of 51 million square meters south east of Bahrain’s mainland. Around 80% of Hawar’s land is a wildlife preservation zone.

MUSANADA SAYS NEW US$ 572 MILLION DUBAI-ABU DHABI MOTORWAY TO OPEN BY END-2016

Abu Dhabi General Services Company (Musanada) announced it completed 83% of the new Abu Dhabi-Dubai speedway which aims to cut congestion between the UAE's two major cities.

The execution of the new highway followed a detailed study of the conditions and volume of daily traffic between Abu Dhabi and Dubai.

The four-lane highway would have a capacity of 8,000 vehicles per hour and would function as an alternative route to the existing E11 Abu Dhabi-Dubai highway.

It added that the new motorway would form a strategic link that would provide an additional capacity to traffic movement particularly during peak hours.

The total cost of the 62 km highway project is approximately AED 2.1 billion (US$ 571.7 million).

This road project would provide a new link to Abu Dhabi city, toward the international airport and Yas in addition to Saadiyat islands. Furthermore, it would help improve traffic flow between Abu Dhabi and Dubai, easing traffic congestion and reducing the accident rates.

The highway project, consisting of two packages (A and B) and comprising four lanes in both directions, is an extension of the Mohamed bin Zayed Road in Seih Shuaib at the Dubai border.

INDIA'S L&T WINS US$ 135 MILLION QATAR WORLD CUP STADIUM CONTRACT

Larsen & Toubro Ltd secured a contract to build a US$ 135 million stadium for Qatar's 2022 World Cup.

As part of a joint venture, L&T would serve as a contractor building the 40,000 seat Al Rayyan stadium.

Al Rayyan stadium would include cooling technology to help with Qatar's fierce temperatures.

The stadium's capacity would be reduced to 21,000 after the tournament with the upper tier of seats being sent to a developing nation.

DUBAI'S CENTAUR INKS US$ 100 MILLION CREDIT FACILITY DEAL

Centaur Ventures, the Dubai-based mining and natural resources investment arm of Centaur Holdings Ltd, signed a US$ 100 million revolving credit facility.

The funds would be used to expand the mining and natural resources projects of Centaur Mining predominantly in South Africa.

Centaur's mining arm, which is based in South Africa, received Reserve Bank approval for US$ 100.3 million for the funds to be deployed in South Africa.

The deal, which was agreed at a 4% rate, would see Centaur's Asset Management arm serve as the advisor to Centaur Ventures. Centaur Ventures are based in Dubai, with additional offices in London, Hong Kong and Bermuda.

UNION PROPERTIES INKS US$ 79 MILLION OIA FINANCING DEAL

Union Properties (UP) has signed a US$ 79 million (AED 290 million) project finance facility for the construction of its US$ 123 million (AED 450 million) Oia Residence project in Motor City.

Ajman Bank and National Bank of Ras Al-Khaimah acted as joint lead managers.

The project, designed by AK Design, would include 269 residential units including duplex apartments with private gardens, terraces and direct access to the swimming pools.

The community would be furnished with secure parking, swimming pools, gyms centre, squash court and other diverse facilities.

The company awarded the main construction contract to China State Engineering Corporation Middle East.

The project is expected to be completed by the end of 2017.

UAE'S ENEC LAUNCHES NUCLEAR OPERATING FIRM NAWAH

The Emirates Nuclear Energy Corporation (ENEC) announced the initiation of the formation of its operating subsidiary, Nawah Energy Company.

A wholly-owned ENEC subsidiary, Nawah has been mandated to operate and maintain Units 1 to 4 in Barakah in adherence to the highest standards of safety, security and quality.

ENEC would focus on the strategic growth of the nuclear industry across the UAE, its responsibilities as project owner of Barakah and shareholder of Nawah, as well as the safe and quality-driven delivery and commissioning of the Barakah project.

Nawah would be responsible to continue the process to obtain the approval of the operating licenses from the Federal Authority for Nuclear Regulation (FANR).

The project at Barakah is progressing steadily whereby Unit 1 is now more than 87% complete, Unit 2 is 68% complete, Unit 3 is 47% complete and Unit 4 is 29% complete.

Overall, construction of Units 1 to 4 is now more than 62% complete. Pending regulatory approval, the four units in Barakah are scheduled to be delivered by 2020, providing nuclear energy to the UAE grid.

When the four reactors are completed, the UAE's peaceful nuclear energy program will provide approximately 25% of the UAE's electricity needs and save up to 12 million tons of greenhouse gas emissions each year.

CAPITAL MARKETS

EQUITY MARKETS: SLOW MOOD SWAYS OVER MENA EQUITY MARKETS AHEAD OF RAMADAN

A sluggish mood swayed over regional equity markets ahead of the Holy month of Ramadan. Total MENA trading activity dropped by 14.7% week-on-week, and equity prices pursued their downward trajectory, as reflected by a 0.4% retreat in the S&P Pan Arab Composite Index.

The UAE equity markets registered a 1.1% fall in prices week-on-week amid a wide sell-off as market participants opted to book gains ahead of the Holy month of Ramadan. In Dubai, Deyaar's share price declined by 2.3% to AED 0.587. Drake & Scull International's share price decreased by 2.0% to AED 0.542. Emaar Properties' share price shed 3.5% to AED 6.150. Arabtec Holding Company's share price dropped by 3.5% to AED 1.370. Arabtec's shareholders approved using reserves to decrease accumulated losses. ENBD's share price fell by 2.9% to AED 8.250. Dubai Islamic Bank's share price plummeted by 6.1% to AED 4.950. In Abu Dhabi, Eshraq Properties' share price went down by 1.3% to AED 0.79. RAK Properties' share price retreated by 1.7% to AED 0.58. Taqa's share price decreased by 1.7% to AED 0.59. Dana Gas' share price closed 1.9% lower at AED 0.53. NBAD's share price shed 2.6% to AED 7.80.

A sell-off mood also governed the Qatar Exchange, triggering a 2.1% drop in prices week-on-week. Vodafone Qatar's share price tumbled by 5.2% to QR 10.61. Industries Qatar's share price went down by 2.9% to QR 95.20. Ooredoo's share price fell by 3.6% to QR 82.30. Nakilat's share price retreated by 1.3% to QR 22.85. Commercial Bank of Qatar's share price went down by 4.0% to QR 35.60. QNB's share price decreased by 1.3% to QR 134.20. Doha Bank's share closed 2.9% lower at QR 34.80.

The heavyweight Saudi Tadawul saw mixed price movements week-on-week that have left the S&P Saudi index unchanged. Banking stocks were a main drag to the index, mainly undermined by the Ramadan slow mood. NCB's share price retreated by 0.4% to SR 40.99. Banque Saudi Fransi's share price shed 2.5% to SR 22.28. SABB's share price closed 0.8% lower at SR 21.15. Saudi Hollandi Bank's share price declined by 2.5% to SR 12.05. Albilad's share price went down by 1.5% to SR 18.34.

EQUITY MARKETS INDICATORS (MAY 29, 2016 TILL JUNE 04, 2016)

Market	Price Index	Week-on Week	Year- to Date	Trading Value	Week-on Week	Volume Traded	Market Capitalization	Turnover ratio	P/E*	P/BV*
Lebanon	103.3	0.4%	-1.3%	7.8	116.7%	0.9	10,358.0	3.9%	7.1	0.90
Jordan	397.0	0.7%	-1.9%	43.9	43.9%	27.0	24,301.2	9.4%	20.1	1.77
Egypt	316.2	0.8%	-3.8%	358.9	35.9%	746.4	45,866.4	40.7%	17.3	2.92
Saudi Arabia	271.3	0.0%	-5.8%	4,432.6	-22.9%	858.1	399,170.8	57.7%	20.8	2.04
Qatar	164.3	-2.1%	-9.2%	285.2	31.7%	26.2	142,116.9	10.4%	13.7	1.81
UAE	115.1	-1.1%	0.1%	638.6	20.3%	1,388.3	210,307.6	15.8%	13.4	2.02
Oman	262.6	-1.5%	5.1%	36.6	4.4%	60.3	23,077.3	8.2%	12.9	1.89
Bahrain	101.6	4.0%	-1.2%	4.0	19.2%	10.1	15,515.7	1.4%	10.2	0.86
Kuwait	73.2	-1.3%	-7.6%	188.0	0.2%	760.1	75,181.4	13.0%	15.3	1.43
Morocco	228.0	1.8%	13.8%	71.8	-28.6%	4.2	50,875.9	7.3%	22.4	3.78
Tunisia	76.3	-0.7%	3.6%	14.7	19.3%	7.4	8,975.9	8.5%	29.5	9.72
Arabian Markets	**629.9**	**-0.4%**	**-4.3%**	**6,082.1**	**-14.7%**	**3,888.8**	**1,005,747.0**	**31.4%**	**17.3**	**2.11**

Values in US$ million; volumes in millions   * Market cap-weighted averages

Sources: S&P, Bloomberg, Bank Audi's Group Research Department

In contrast, petrochemicals stocks saw mostly upward price movements. Brent oil prices stabilized around US$ 50 per barrel after the Kingdom pledged in the latest OPEC meeting held on June 2, 2016 not to flood the global market with more oil, at a time when still no agreement has been reached among OPEC members over oil output ceiling. Petrochemicals giant SABIC's share price edged up by 0.2% to SR 82.56. SABIC signed an agreement with Shenhua Ningxia Coal Industry Group to build a petrochemical complex in China. Yansab's share price surged by 3.3% to SR 42.04. Yansab's Board of Directors recommended the distribution of dividends at a rate of SR 1.5 per share for the first half of 2016, which is 50% higher relative to the same period of the previous year. Petrochem's share price increased by 2.0% to SR 17.76. Sahara Petrochemical Company's share price rose by 0.4% to SR 11.15. Sipchem's share price closed 0.9% higher at SR 13.99.

Finally, the Egyptian Exchange recorded a 0.8% rise in prices week-on-week, driven by some favorable company-specific factors. SODIC's share price increased by 2.7% to LE 11.31. Naeem Brokerage maintained a "Buy" rating on SODIC, despite a 31% yearly drop in its 2016 first quarter net profits, mainly because of its strong balance sheet and healthy net cash position. EFG-Hermes' share price jumped by 6.3% to LE 11.76. Dubai Group said it would divest its 11.8% stake in EFG-Hermes by the end of this year amid talks about a potential strategic shareholder. HSBC raised its target for the stock from LE 11.5 to LE 13.2. Cleopatra Hospital Holding's share price surged by 7.3% from its initial public offer price to close at LE 9.66. Sigma Capital suggested a target price for the stock of LE 11.66.

BOND MARKETS: REGIONAL BOND PRICES DOWN WITH SEVERAL NEW ISSUES WAITING IN THE PIPELINE

MENA bond markets saw downward price movements across the board this week, as most accounts remained cautious, still digesting the recent issuances and trying to rebalance their books for the new ones waiting in the pipeline. This was reflected by a 7.4% expansion in the Z-spread based Audi compiled MENA bond index, bucking US Treasuries move, as the latter attracted a decent bid after OPEC members failed to agree on oil output targets and on concerns over Britain's future in the European Union.

In the Saudi space, a sell-off mood prevailed this week on news that Saudi Arabia is considering to sell as much as US$ 15 billion in what would be the country's first foray into international capital markets in order to fund a widening fiscal deficit. This followed a US$ 9 billion sovereign bond sale in Qatar last week, which attracted orders of US$ 23 billion. Prices of SABIC'18 and '20 were down by 0.13 pt and 0.25 pt respectively. SECO papers maturing between 2017 and 2044 posted price falls hovering between 0.13 pt and 2.50 pts. Amongst financials, Banque Saudi Fransi'17 was down by 0.13 pt.

In Abu Dhabi, sovereigns maturing in 2026 were down by 0.50 pt week-on-week. Mubadala papers maturing between 2019 and 2023 registered price drops ranging between 0.13 pt and 0.25 pt. Taqa papers maturing between 2018 and 2036 posted price falls of up to 1.50 pt. Taqa mandated BNP Paribas, Citigoup, First Gulf Bank, HSBC, National Bank of Abu Dhabi and Societe Generale for a potential dollar bond issuance.

In Dubai, sovereigns maturing between 2020 and 2043 recorded price declines of 0.38 pt to 1.13 pt this week. Dubai is updating its Euro Medium Term Note program and is said to be preparing an international bond sale. Amongst quasi-sovereigns, prices of DP World'17 and '20 decreased by 0.25 pt each. DP World'23 was down by 0.13 pt. DP World announced that the company raised US$ 1.2 billion in a new seven-year Sukuk set to be listed on Nasdaq Dubai, after the issue received strong investor interest and more than US$ 2 billion in bids. DEWA'18 and '20 closed down by 0.13 pt and 0.25 pt respectively. Moody's upgraded to "Baa1" from "Baa2" the long-term issuer rating of DEWA, to "(P) Baa1" from "(P) Baa2" the provisional rating of its senior unsecured global medium-term note program and to "Baa1" from "Baa2" the ratings of the two senior unsecured notes issued under the program (due in 2016 and 2020 and amounting to US$ 2.0 billion in total). The outlook on all ratings is "stable".

Amongst corporates, Emaar'16 was down by 0.25 pt over the week. Prices of Emaar'19 and '24 dropped by 0.50 pt each. Majid Al Futtaim'25 closed down by 0.38 pt. As to papers issued by financial institutions, prices of DIB'17 and '21 retreated by 0.19 pt and 0.13 pt respectively. DIB Perpetual was down by 0.38 pt. Emirates Islamic Bank'17 and '18 traded down by 0.13 pt each.

In Bahrain, sovereigns maturing in 2018 and 2044 were down by 0.25 pt each week-on-week, while sovereigns maturing in 2022 and 2023 closed up by 0.56 pt and 0.38 pt respectively. As to plans for new issues, GFH Financial Group announced plans to issue a US$ 150 million Sukuk. The Sukuk would be used to repay outstanding debts and surplus cash would go towards future investments.

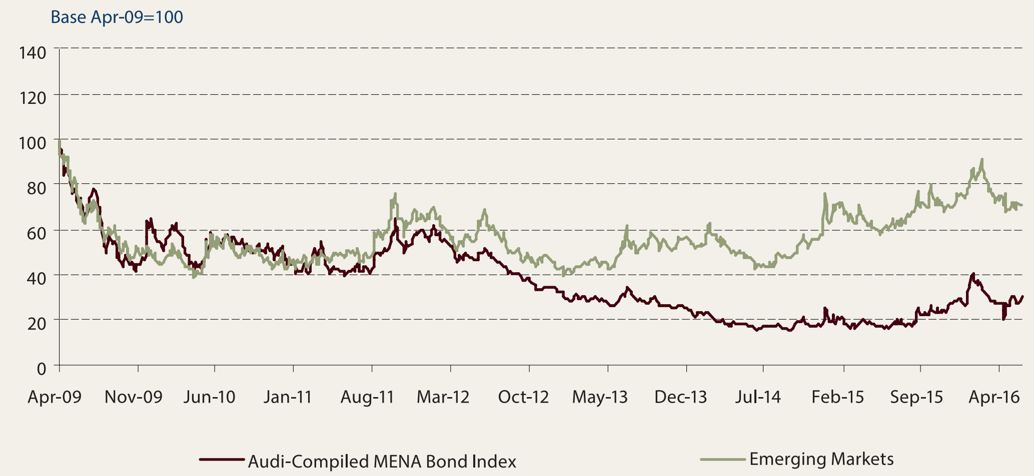
In the Qatari space, sovereigns were better offered this week. Papers maturing between 2019 and 2026 registered weekly price drops ranging between 0.13 pt and 0.44 pt. Prices of Qatar'40 and '42 were down by 1.25 pt and 1.00 pt respectively. Qtel papers maturing between 2019 and 2043 saw price declines hovering between 0.25 pt and 1.25 pt. Amongst financials, Commercial Bank of Qatar'19 (offering a coupon of 2.875%) and '19 (offering a coupon of 7.50%) were down by 0.25 pt and 0.63 pt respectively. Commercial Bank of Qatar plans to issue benchmark-sized bonds, denominated in US dollars. The bank hired Citi, Morgan Stanley and National Bank of Abu Dhabi to arrange the issuance.

MIDDLE EAST 5Y CDS SPREADS V/S INTL BENCHMARKS

in basis points	03-Jun-16	27-May-16	31-Dec-15	Week-on-week	Year-to-date
Abu Dhabi	100	100	93	0	7
Dubai	214	215	234	-1	-20
Qatar	113	110	93	3	20
Saudi Arabia	165	165	156	0	9
Bahrain	354	370	367	-16	-13
Morocco	198	200	207	-2	-9
Egypt	488	489	478	-1	10
Lebanon	453	461	422	-8	31
Iraq	910	910	931	0	-21
Middle East	**333**	**336**	**331**	**-3**	**2**
Emerging Markets	**519**	**537**	**598**	**-18**	**-79**
Global	**253**	**260**	**260**	**-7**	**-7**

Sources: Bloomberg, Bank Audi's Group Research Department

Z-SPREAD BASED AUDI MENA BOND INDEX V/S INTERNATIONAL BENCHMARKS



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

SOVEREIGN RATINGS & FX RATES

SOVEREIGN RATINGS	Standard & Poor's	Moody's	Fitch
LEVANT			
Lebanon	B-/Negative/B	B2/Negative	B/Negative/B
Syria	NR	NR	NR
Jordan	BB-/Negative/B	B1/Stable	NR
Egypt	B-/Negative/B	B3/Stable	B/Stable/B
Iraq	B-/Stable/B	NR	B-/Negative/B
GULF			
Saudi Arabia	A-/Stable/A-2	A1/Stable	AA-/Negative/F1+
United Arab Emirates	AA/Stable/A-1+*	Aa2/Negative	AA/Stable/F1+*
Qatar	AA/Stable/A-1+	Aa2/Negative	AA/Stable/F1+
Kuwait	AA/Stable/A-1+	Aa2/Negative	AA/Stable/F1+
Bahrain	BB/Stable/B	Ba2/Negative	BBB-/Negative/F3
Oman	BBB-/Stable/A-3	Baa1/Stable	NR
Yemen	NR	NR	NR
NORTH AFRICA			
Algeria	NR	NR	NR
Morocco	BBB-/Stable/A-3	Ba1/Stable	BBB-/Stable/F3
Tunisia	NR	Ba3/Stable	BB-/Negative/B
Libya	NR	NR	NR
Sudan	NR	NR	NR

NR= Not Rated * Emirate of Abu Dhabi Ratings

FX RATES (per US$)	03-Jun-16	27-May-16	31-Dec-15	Weekly change	Year-to-date
LEVANT					
Lebanese Pound (LBP)	1,507.50	1,507.50	1,507.50	0.0%	0.0%
Syrian Pound (SYP)	217.39	217.39	222.22	0.0%	-2.2%
Jordanian Dinar (JOD)	0.71	0.71	0.71	0.0%	0.1%
Egyptian Pound (EGP)	8.89	8.88	7.83	0.1%	13.5%
Iraqi Dinar (IQD)	1,192.56	1,193.60	1,165.00	-0.1%	2.4%
GULF					
Saudi Riyal (SAR)	3.75	3.75	3.75	0.0%	0.0%
UAE Dirham (AED)	3.67	3.67	3.67	0.0%	0.0%
Qatari Riyal (QAR)	3.64	3.64	3.64	0.0%	0.0%
Kuwaiti Dinar (KWD)	0.30	0.30	0.30	0.0%	-0.4%
Bahraini Dinar (BHD)	0.38	0.38	0.38	0.0%	0.2%
Omani Riyal (OMR)	0.38	0.38	0.38	0.0%	0.0%
Yemeni Riyal (YER)	250.00	250.00	217.39	0.0%	15.0%
NORTH AFRICA					
Algerian Dinar (DZD)	109.89	109.89	107.53	0.0%	2.2%
Moroccan Dirham (MAD)	9.65	9.78	9.91	-1.3%	-2.6%
Tunisian Dinar (TND)	2.13	2.10	2.03	1.3%	4.7%
Libyan Dinar (LYD)	1.38	1.38	1.40	0.0%	-1.4%
Sudanese Pound (SDG)	6.45	6.45	6.45	0.0%	0.0%

Sources: Bloomberg, Bank Audi's Group Research Department

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