The MENA WEEKLY MONITOR

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Economy

In its new MENA sovereign rating trends report, S&P expects GCC sovereigns to continue facing unprecedented fiscal financing needs exceeding US$ 100 billion in 2016 alone.

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Surveys

The International Telecommunications Union (ITU), a United Nations agency, issued its latest statistics on Information and Telecommunications Industries (ICT), whereby Bahrain, Lebanon, Kuwait and the UAE top MENA countires.

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Corporate News

National Shipping Company of Saudi Arabia (Bahri) signed a deal with Arab Petroleum Investments Corp. (Apicorp) to launch a US$ 1.5 billion investment fund that could buy up to 15 very large crude carriers (VLCCs).

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Markets In Brief

MENA equity markets continued to trace an upward trend over this week, as reflected by a 2.2% increase in the S&P Pan Arab Composite Index, tracking a 4.2% rise in emerging markets, and supported by oil price increases, some favorable financial results, and mounting bets about currency devaluation in Egypt. In parallel, regional bond markets saw mixed price movements. Some papers registered price decreases, tracking declines in US Treasuries on improved sentiment after the Bank of England signaled that more stimulus would come in August 2016 and on bets that Japan would recharge its stimulus program. Some other papers attracted decent flows from both onshore and offshore accounts.

MENA MARKETS: WEEK OF JULY 10 - JULY 16, 2016

Stock market weekly trend	↑	Bond market weekly trend	↑
Weekly stock price performance	+2.2%	Weekly Z-spread based bond index	-11.5%
Stock market year-to-date trend	↓	Bond market year-to-date trend	↑
YTD stock price performance	-1.5%	YTD Z-spread based bond index	-9.4%

ECONOMY

S&P SAYS OVERALL SOVEREIGN CREDITWORTHINESS IN MENA HAS CONTINUED TO DETERIORATE THIS YEAR

S&P lately issued its bi-annual MENA sovereign rating trends report, arguing overall sovereign creditworthiness in the region has continued to deteriorate since the early 2016 report.

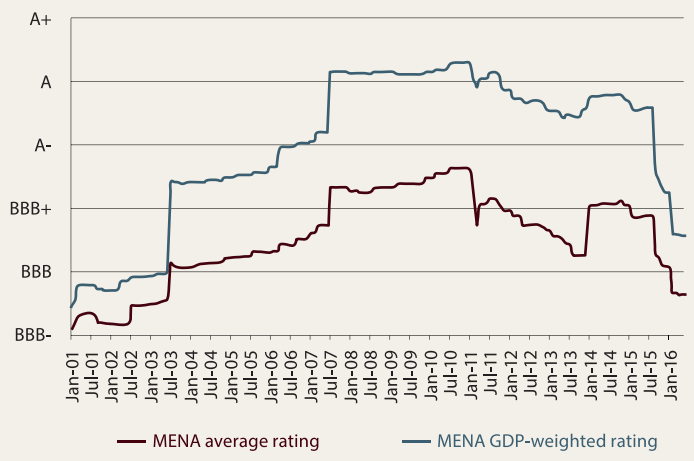
The first half of 2016 saw an intensification of downward rating pressure on some net-hydrocarbon exporters, with the downgrades of Saudi Arabia, Oman, and Bahrain. Ratings for the net importers have remained static over the same period, as negative factors emanating from fiscal and external pressures, as well as ongoing regional conflict, have muted the benefit of lower import bills, as per S&P. The rationale behind lowering these ratings relates to the sharp fall in oil prices and consequent revision of S&P's price assumptions. The rating agency lowered its assumptions for Brent by US$ 15/bbl (to an average of US$ 40/bbl) for 2016 and by US$ 20/bbl (to an average of US$ 48/bbl) for 2017 onward.

The average fiscal balance of GCC countries plus Iraq (excluding RAK and Sharjah but including Abu Dhabi rather than the UAE) will have deteriorated from a 9% of GDP surplus in 2013 to an estimated 9% of GDP deficit in 2016, which includes S&P's estimates of fiscal consolidation.

Given the uniformly high dependence among GCC sovereigns on receipts from hydrocarbon exports, the consequences of a sharp fall in prices are clearly visible in both fiscal and external data. While the resulting imbalances differ in scale and duration, one commonality among GCC sovereigns is the emergence of almost unprecedented fiscal financing needs. S&P estimates the combined fiscal deficits for GCC sovereigns to total over US$ 100 billion (9.2% of GDP) in 2016, similar to 2015.

How to finance these deficits is rather a new question for regional sovereigns and the answer will probably need to take on board numerous considerations. Aside from the scale of existing asset stocks and debt burdens, determining factors will likely include: (i) restrictions around assets and related income; (ii) basic economics, in that it may be cheaper to issue debt than forego investment earnings on assets; and (iii) how receptive various markets might be. Monetary policy could also be a consideration. S&P does not expect any changes to regional currency pegs, but does not anticipate policy makers will tolerate persistent declines in foreign reserves. Therefore, for most sovereigns, S&P projections include a mix of asset draw-downs and debt issuance.

MENA SOVEREIGN RATING HISTORY



Source: S&P

International market volatility, reflecting weaker demand from China, uncertainty stemming from Brexit and the potential for a change in stance from key monetary authorities on global liquidity, could deter issuers from Eurobond placements for some time. Further, deposit growth in GCC domestic banking systems has slowed dramatically from double-digit growth over 2012-2014; hydrocarbon-related public sector entities are the main depositors. Overnight rates have started to increase, reflecting tightening liquidity particularly in Saudi Arabia and the UAE, the largest banking systems. The former contributes the vast majority of the total 2016 financing need for the region, at roughly US$ 80 billion, as per S&P, which consequently expects upward pressure on the price of debt.

Balance sheet strength yet remains a characteristic of the region. Only Bahrain is in a fiscal net debt position. That said, funding deficits with assets alone (if this were possible) would have a marked impact on this strength. Absent a substantial increase in the scale and speed of fiscal consolidation, or oil prices, S&P expects that regional financing needs will remain elevated for some time thereby weakening government balance sheets. Creditworthiness in the region is at its lowest ebb since 2003, before hydrocarbon prices embarked on their decade-long climb.

LIMITED IMMEDIATE EFFECTS OF THE UK'S VOTE TO LEAVE THE EU ON MIDDLE EAST SOVEREIGNS, AS PER FITCH

Any immediate effects of the UK's referendum vote to leave the EU on Middle East sovereigns appear limited, as per Fitch.

The rating agency said that short-term effects could come via market volatility, while a slowdown in British and European growth could weigh on Middle East economies at a time of already heightened strains.

It added that 10 out of 29 rated sovereigns in the Middle East and Africa region are currently on "negative" outlook. Fitch said the most immediate channel of contagion from Brexit is via an increase in investor risk aversion, with the impact depending on the degree of integration into the global financial system.

Broad-based risk aversion would make accessing international financial markets more difficult and costly, but movements in Middle East and African sovereign bond yields have been limited, as per Fitch.

The agency added that the Brexit vote also triggered an appreciation of the US dollar against most floating emerging market currencies, which would add to the debt and debt service burden of countries with significant US Dollar denominated debt on their balance sheets.

For countries with US Dollar pegs (including the GCC), it would mean some further appreciation of trade-weighted exchange rates and loss of competitiveness, potentially adding to macroeconomic imbalances. Furthermore, Fitch said that while Saudi Arabia holds most of its reserve assets in US Dollar-denominated assets, the smaller rich Gulf States are believed to hold significant amounts of British and EU assets.

However, the size of their estimated sovereign net foreign assets (more than 400% of GDP in Kuwait and around 200% of GDP in Abu Dhabi and Qatar), despite ongoing deficits, are sufficient for them to easily absorb any portfolio losses that could result from market volatility.

Fitch noted that many sovereigns in the region are heavily dependent on commodity exports, adding that the Brexit impact on commodity prices has been contained, but a downturn in the UK and Europe could still affect demand and prices.

In the medium term, Fitch said an exit from the EU might require Middle East countries to negotiate trade agreements with the EU bilaterally to retain access to the UK market, and this would likely be a lengthy process.

GCC SPENDING CUTS COULD DO IRREPARABLE HARM TO THEIR ECONOMIC AND SOCIAL DEVELOPMENT, SAYS STRATEGY&

GCC governments announced spending cuts, but conventional strategies, such as across-the-board or narrowly focused cuts, could do irreparable harm to their economic and social development, according to a report by Strategy&.

Gulf Cooperation Council countries are in a fiscal crunch. Even if the GCC member states can grow non-oil revenues by 10% annually over the rest of this decade and the average price per barrel of oil returns to US$ 50, their budgets would still need to be reduced by approximately US$ 100 billion (7% of GCC GDP) on an annual basis to achieve fiscal balance.

GCC countries need a more effective approach to conduct spending cuts, applying a scheme that enables them to cut costs and grow stronger simultaneously. This approach, which Strategy& developed for the private sector and customized for government, is called Fit for Service.

Across-the-board spending cuts yield short-term savings, but they do not change how a government spends or functions, as per the report. The government tightens its belt, but it does not attack the cost basis of functions and processes. Worse, across-the board cuts impede the performance of the government's essential processes and the implementation of its high-priority initiatives because they are subject to the same reductions as every other activity.

Similarly, narrowly focused spending cuts also sacrifice long-term goals for short-term financial gain. Functions and services that offer the largest and most immediate savings are targeted without due consideration for their long-term impact. Often, these cost reductions are determined by benchmarking similar spending of other countries without taking into account the local context.

Fit for Service achieves substantial and sustainable reductions in spending, while bolstering investment in the government services and initiatives that are essential to the long-term security and well-being of governments' constituents, according to Strategy&. It involves four actions: articulating strategy; transforming the existing cost structure of government services; building the necessary capabilities; and reorganizing the government's operating model for high performance.

There are two enablers of these actions. The first is digital, which drives the digital transformation of government. The second is the development of the talent needed within government and the national economy at large along with the creation of a change-friendly culture that can support and nurture stakeholders as they undertake transformational initiatives.

Last but not least, Fit for Service initiatives are difficult but worth the effort because the leaders of the GCC member states cannot simply cut costs by conventional means if they are to transform the cost base of their governments and create a more sustainable fiscal future.

SURVEYS

BAHRAIN, LEBANON, KUWAIT AND THE UAE TOP MENA COUNTRIES IN ICT INDICATORS

The International Telecommunications Union (ITU), a United Nations agency, issued its latest statistics on Information and Telecommunications Industries (ICT). According to the ITU, Bahrain topped MENA countries in individual internet subscriptions, while Lebanon came first in subscriptions of fixed broadband. At the same time, Kuwait and the UAE ranked first in mobile phone and fixed telephone lines subscriptions, respectively.

With regards to internet penetration, measured by the percentage of internet users in each country, Bahrain ranked first, moving from 91.0% in 2014 to 93.5% in 2015. Qatar had a very close share of 92.9% in 2015. Such ratios surpass the MENA average of 41.1% posted in 2015. In absolute terms, the number of individuals using the internet in Bahrain reached 1.27 million in 2015, up by 4.2% from 2014. This rise remains below the 11.9% increase recorded by the MENA region in 2015.

As to broadband subscriptions, Lebanon ranked first among MENA counterparts. In relative terms, Lebanon's coverage remained at 22.8% in 2015. In absolute terms, subscriptions reached 1.15 million in 2015, a slight increase from the 2014 level. As for the MENA region, the percentage of broadband subscriptions was up from 4.1% in 2014 to 4.9% in 2015.

At the level of mobile usage, the number of subscriptions in Kuwait totaled 8.3 million in 2015, up by 9.3% from 2014. Such a rise is well above the 1.8% increase posted by the MENA region. In relative terms, Kuwait's penetration ratio, i.e. the percentage of the population with a mobile subscription, is the highest across the region. It actually stands at 231.8%, up from 218.4% in 2014. The penetration ratio is almost double that of the MENA average of 112.4%. The UAE's fixed telephone lines subscriptions reached 2.2 million in 2015, equivalent to 23.1 per 100 habitants, the highest percentage among MENA counterparts.

MENA COUNTRIES SUBSCRIPTION RATES IN ICT DATA (PER 100 HABITANTS, 2015)

Country	Internet	Broadband	Mobile	Fixed Telephone Lines
Algeria	38.20	5.57	113.03	8.04
Bahrain	93.48	18.61	185.26	20.52
Egypt	35.90	4.52	110.99	7.36
Iraq	17.22	-	93.83	5.58
Jordan	53.40	4.16	179.43	4.80
Kuwait	82.08	1.37	231.76	13.40
Lebanon	74.00	22.76	87.07	19.19
Libya	19.02	0.97	157.00	10.00
Morocco	57.08	3.38	126.87	6.55
Oman	74.17	5.61	159.86	10.46
Palestine	57.42	6.03	77.62	8.94
Qatar	92.88	10.06	153.59	18.25
Saudi Arabia	69.62	12.01	176.59	12.53
Sudan	26.61	0.07	70.53	0.30
Syria	29.98	3.14	62.45	18.33
Tunisia	48.52	4.34	129.93	8.40
UAE	91.24	12.81	187.35	23.06
Yemen	25.10	1.55	67.98	4.68
MENA	**41.07**	**4.88**	**112.38**	**8.15**

Sources: International Telecommunications Union, Bank Audi's Group Research Department

BREXIT SEEN AS MAJOR FACTOR INFLUENCING DUBAI'S REAL ESTATE MARKET IN 2Q2016, AS PER JLL

According to its recently released report: "Dubai Real Estate Market Overview: 2Q2106", Jones Lang Lasalle (JLL) considered that the major factor influencing the Dubai real estate market in 2Q2016 is Britain's exit from the European Union. Dubai caters to the most open real estate market within the region and as a result is more susceptible to external factors. As Brexit brings slight uncertainty into the market, it was noted that in 2Q2016 rent values continue to face a downward slope in the office and residential sectors.

Looking at the residential market, the second quarter of 2016 witnessed the delivery of 1500 villas for the Emirate staff in district 11 of the MBR City project. Additional 1,680 units were added across Dubai including both apartment and villa units, and taking the total stock to 462,000 units. Furthermore the Dubai Land Department (DLD) introduced a new building classification system which aims to create a more transparent market (in line with the 2021 vision) by providing a complete database for every single unit in Dubai along with a star rating system.

Dubai's offices sector saw the handover of one office tower which added 30,000 square meters of office Gross Leasable Area (GLA), taking the total stock to 8.5 million square meters, broadly in line with the figure recorded during the first quarter of 2016. The forecasts of future supply levels for 2017/2018 have been revised downwards over the quarter due to a number of projects which were scheduled for completion in 2017 that have been delayed to 2018, as well as Al Duja Tower which was previously included as a mix-use building has now been confirmed as largely residential reducing potential 2017 office supply by 167,000 square meters. Dubai Design District (d3) is becoming a more desirable destination, asking rents in d3 have increased by approximately 40% over 2Q2016 primarily due to the achievement of an occupancy milestone. The design industry in the region is expected to grow at an annual rate of 6% over the next 5 years which would result in more office demand for space in developments like d3.

According to the report, three new shopping malls were added over the quarter, adding almost 30,000 square meters of GLA. The remainder of 2016 is expected to witness the delivery of further 150,000 square meters. The VAT being introduced in 2018 is setting a worrisome tone across the market. This would lead to higher inflation rates and reduce discretionary spending. JLLs report mentions that this new tax would be positive for the overall economy, marking a further diversification of government revenue away from the oil sector, as well as greater transparency and the ability for mall owners to have greater visibility of sales patterns.

According to the report, even though it is still early to predict the long term implication, overall sales are being more affected than the rental sector and if external factors stabilize over the rest of the year JLL expects the Dubai residential market to easily recover in early 2017.

CORPORATE NEWS

SAUDI SHIPPER BAHRI AND APICORP LAUNCH US$ 1.5 BILLION FUND

National Shipping Company of Saudi Arabia (Bahri) signed a deal with Arab Petroleum Investments Corp. (Apicorp) to launch a US$ 1.5 billion investment fund that could buy up to 15 very large crude carriers (VLCCs).

The fund would be seeded with US$ 500 million on three occasions, subject to conditions and would subscribe to 15% of the fund's capital, as per a Bahri statement. Apicorp would provide the remaining 85%, and would be the manager for the fund and responsible for arranging finance, as per the same source. Bahri, in return, would be the technical and commercial manager for the fleet of tankers owned by the fund. The two parties expect to complete the remaining processes and undertake the first phase of fundraising at the end of the third quarter of 2016. Bahri expects the financial impact of the first phase to appear in the first quarter of 2017.

DUBAI SOUTH INVESTS US$ 272 MILLION TO BRING INNOVATIVE URBAN LIVING CONCEPT TO LIFE

Dubai South awarded contracts worth AED 1 billion (US$ 272.3 million) for a number of project developments, most notably in the city's Residential District, adjoining the Expo 2020 Dubai site.

The infrastructure and design contracts have been awarded to noted industry leaders, including Parsons Corporation, Atkins Global, Studio International Architects, Al Nasr, Tristar Engineering and Construction and the US-based RNL Design.

Dubai South is confident that these partners would ensure that the latest developments in smart city technology and sustainability are seamlessly integrated into all aspects of Dubai South Residential District, which is specifically designed to deliver life solutions and happiness as key outcomes. The Emirate's flagship urban project, Dubai South, is conceptualized to manifest the themes of happiness as set out in the Dubai Plan 2021.

The concept behind the Residential District is rooted in the overarching societal themes of Dubai Plan 2021. Dubai South is reinventing the urban ecosystem by creating a city that is based primarily on the happiness and wellbeing of people. This entirely new model of urban living puts people first, while celebrating nature and diverse populations.

The overall infrastructure development of the Residential District would be completed in phases. Work is already well underway by Al Nasr on the first section of the Residential District's infrastructure, which would be completed by the fourth quarter of 2016. Tristar Engineering and Construction has been awarded the infrastructure construction for the remaining areas of phase one, with this phase scheduled to be completed by Q4 2017. This would pave the way for over 40 developers to expedite their developments in Dubai South's Residential District.

CYPRIOT CONTRACTOR J&P WINS QATAR FOUNDATION WORLD CUP STADIUM DEAL

Cyprus-based contractor Joannou & Paraskevaides (J&P) was awarded the construction contract for the Qatar Foundation stadium.

The stadium would have a tournament capacity of 40,000, and as with all proposed 2022 FIFA World Cup venues, would feature innovative cooling technology that would provide comfortable playing and viewing conditions for fans and players alike.

The design of the stadium would see light filtered through complex geometrical pattern and would be located at Education City.

RFA Fenwick Iribarren Architects is the design consultant for the QF Stadium, while Astad Project Management serves as the project manager.

The development of QF Stadium, and the associated Health & Wellness Centre, would be overseen by the Qatar Foundation Capital Projects Directorate.

Construction is expected to be completed by the third quarter of 2019.

GERMANY'S HAPAG-LLOYD SEALS MERGER WITH GULF-BACKED UASC

German container line Hapag-Lloyd signed a binding agreement with Arab peer UASC to form the world's fifth largest shipping company. The merger between Hapag-Lloyd and UASC is expected to be completed by the end of 2016 and is the latest in a series of mergers and alliances in the industry.

It would create a group with 237 vessels, transport capacity of around 1.6 million twenty foot equivalent unit containers (TEU) and a combined turnover of around US$ 12 billion, as per a statement by Hapag-Lloyd.

The new Hapag-Lloyd would remain headquartered in Hamburg and listed in Germany. Chile's CSAV, the City of Hamburg and Kuehne Maritime would remain controlling shareholders.

UASC's majority shareholders, Qatar Holding, and the Saudi Public Investment Fund (PIF), would become major shareholders in the new group, holding 14% and 10% respectively.

The new company would seek to tackle the sector's downturns by gaining access to ultra large container vessels that offer economies of scale, as well as providing access to cash injections, as per the same source. Some of the controlling shareholders have committed to backstop a cash capital increase of US$ 400 million planned through a rights issue within six months of the deal closing.

With an average age of 6.6 years and average size of 6,600 TEU, the combined company would have one of the most modern and efficient fleets. The two had unveiled plans to merge in April, won consent from both companies' boards and shareholders and then worked on detailed specifications of the agreement.

Separately, the enlarged company would also be the key player in a new shipping alliance, dubbed "THE Alliance". Due to start in April 2017, THE Alliance would cover all important Asia to Europe trade lanes.

SNC-LAVALIN SEALS QATAR CONSULTANCY CONTRACT

SNC-Lavalin, a leading engineering and construction group, was awarded an engineering consultancy and support services contract by Oryx GTL, a joint venture between Qatar Petroleum and Sasol of South Africa, for its gas-to-liquids complex at Ras Laffan Industrial City in Qatar.

The five-year contract is with its local entity, Qatar Kentz and is aligned to support Oryx GTL's long-term sustaining capital plan, as per an SNC-Lavalin statement.

The agreement sets out predefined rates for a number of work elements that would be required at the facility, including general engineering, feasibility studies, modeling, drawings and documentation, as per the same source.

MUBADALA SELLS 80% STAKE IN SR TECHNICS

Mubadala, the Abu Dhabi government-owned investment and development company, has reportedly sold 80% of Swiss aircraft maintenance firm SR Technics to Chinese firm HNA Aviation. It would retain a 20% stake in the firm in the deal, which is still subject to regulatory approvals. Mubadala revealed in March it was open to selling the firm, in which it became a shareholder in 2006. Etihad Airways selected SR Technics to provide components services for its Boeing 787 fleet in June 2015, in a deal valued at US$ 150 million.

CAPITAL MARKETS

EQUITY MARKETS: HEALTHY PRICE GAINS ACROSS REGIONAL STOCK MARKETS, SUPPORTED BY FAVORABLE COMPANY-SPECIFIC AND MARKET-SPECIFIC FACTORS

MENA equity markets continued to trace an upward trend over this week, as reflected by a 2.2% increase in the S&P Pan Arab Composite Index, tracking a 4.2% rise in emerging markets, and supported by oil price increases, some favorable financial results, and mounting bets about currency devaluation in Egypt.

The Egyptian Exchange continued to lead the advance for the second consecutive week, posting a 5.8% climb in prices, on mounting speculation about further currency devaluation ahead of the CBE's first weekly foreign exchange auction after Eid holidays. This was mainly supported by comments from the Central Bank Governor that the Egyptian pound should be a market-based currency where demand and supply set the price. Yet, the CBE kept the pound stable at LE/US$ 8.78 in its weekly auction. Global Telecom's share price jumped by 16.6% to LE 3.86. SODIC's share price surged by 17.1% to LE 12.94. Egyptian Resorts' share price increased by 2.7% to LE 0.75. Talaat Moustafa Group's share price climbed by 6.9% to LE 5.60. Arab Cotton Ginning's share price closed 4.7% higher at LE 2.70.

The Qatar Exchange registered a 4.7% surge in prices week-on-week, mainly supported by some favorable financial results. Qatar Electricity and Water Company's share price rose by 3.3% to QR 220.00. QEWC made net profits of QR 444 million in the second quarter of 2016, compared to QR 391 million in the same period of 2015. Nakilat's share price increased by 2.6% to QR 23.69. Nakilat reported net profits of QR 501 million for the first half of 2016, against QR 491 million a year earlier. QNB's share price climbed by 6.6% to QR 151.00. QNB announced that net profits for the first half of 2016 reached QR 6.2 billion, up by 12% year-on-year. This encouraged market players to build up positions in banking stocks. QIB's share price jumped by 6.2% to QR 103.00. CBQ's share price surged by 5.0% to QR 38.90. Doha Bank's share price closed 4.7% higher at QR 36.85.

The heavyweight Saudi Tadawul reported a 2.4% increase in prices this week when compared to the latest closing two weeks ago. Banque Saudi Fransi's share price closed 2.9% higher at SR 23.09. The bank made net profits of SR 1.05 billion in the three months ended June 30, compared to SR 1.02 billion in the same period a year earlier. Riyad Bank's share price increased by 1.5% to SR 11.10. The bank posted a 2% year-on-year rise in its second quarter net profits to reach SR 1.15 billion. Petrochemicals

EQUITY MARKETS INDICATORS (JULY 10, 2016 TILL JULY 16, 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	103.4	0.1%	-1.2%	7.9	-	1.8	10,366.0	4.0%	7.1	0.90
Jordan	393.2	0.9%	-2.8%	32.5	-	24.2	24,055.4	7.0%	17.7	1.82
Egypt	317.2	5.8%	-3.5%	400.3	-	1,192.3	45,668.2	45.6%	13.3	2.90
Saudi Arabia	277.5	2.4%	-15.6%	5,641.3	-	1,399.1	409,866.9	71.6%	16.1	2.09
Qatar	178.6	4.7%	-1.3%	239.4	-	23.1	153,698.2	8.1%	14.5	1.92
UAE	124.1	1.5%	7.8%	808.4	-	1,619.9	223,726.2	18.8%	14.2	2.13
Oman	263.1	0.5%	5.3%	33.6	-	61.5	23,127.6	7.6%	12.4	1.89
Bahrain	105.6	1.9%	2.8%	5.8	-	7.7	17,237.5	1.7%	14.0	1.22
Kuwait	71.2	-1.1%	-10.2%	114.8	-	299.9	72,635.4	8.2%	15.0	1.40
Morocco	225.1	2.9%	12.3%	45.6	-	3.3	49,870.8	4.8%	20.9	3.83
Tunisia	69.7	-0.3%	-5.4%	8.2	-	3.2	8,253.4	5.1%	29.1	7.38
Arabian Markets	**648.4**	**2.2%**	**-1.5%**	**7,337.7**	**-**	**4,636.2**	**1,038,505.7**	**60.7%**	**15.4**	**2.15**

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

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

also followed an upward trajectory amid a 1.8% rise in Brent prices. Petrochemicals giant SABIC's share price went up by 2.4% to SR 83.13. Sahara Petrochemical Company's share price jumped by 7.9% to SR 11.34. Sipchem's share price climbed by 7.7% to SR 14.08. Saudi Kayan Petrochemical's share price surged by 7.9% to SR 6.99.

Finally, the UAE equity markets registered a 1.5% rise in prices week-on-week amid some favorable company-specific factors. In Dubai, ENBD's share price closed 2.1% higher at AED 8.480. ENBD made net profits of AED 1.9 billion in the second quarter of 2016, compared to net profits of AED 1.7 billion in the corresponding period of 2015. Arabtec's share price jumped by 4.9% to AED 1.500. Arabtec agreed an AED 400 million debt facility to be provided by Aabar, one of its major shareholders, noting that the funding would help the company deliver its ongoing projects during challenging conditions. Damac Properties' share price surged by 3.0% to AED 2.400. Damac Properties announced the launch of "The Beach" at "Navitas Hotel & Residences", a new collection of golf and beach-style living apartments set within the Akoya Oxygen Development in Dubai.

In Abu Dhabi, ADIB's share price went up by 2.6% week-on-week to AED 3.96. ADIB announced net profits of AED 508 million in the second quarter of 2016, compared to net profits of AED 503 million in the same period of 2015. Aldar Properties' share price rose by 1.9% to AED 2.74. RAK Properties' share price closed 1.7% higher at AED 0.60.

BOND MARKETS: MIXED PRICE MOVEMENTS ACROSS REGIONAL BOND MARKETS

Regional fixed income markets saw mixed price movements week-on-week. Some papers registered price decreases, tracking declines in US Treasuries on improved sentiment after the Bank of England signaled that more stimulus would come in August 2016 and on bets that Japan would recharge its stimulus program. Some other papers attracted decent flows from both onshore and offshore accounts. This came along a report issued by Moody's signaling that the UK's vote to leave the EU would not have a significant credit impact on GCC sovereigns because their trade exposure to the UK is limited and the size of their sovereign wealth funds offers resilience against potential fluctuations in the value of some assets.

In Abu Dhabi, sovereigns maturing in 2019, 2021 and 2026 saw weekly price falls of up to 0.50 pt. Prices of Dolphin'19 and '21 were down by 0.38 pt and 0.13 pt respectively. Taqa papers maturing between 2016 and 2026 recorded price falls of 0.13 pt to 0.63 pt. In contrast, Mubadala papers maturing between 2019 and 2023 reported price gains of 0.13 pt to 0.88 pt. IPIC papers maturing in 2020, 2022 and 2023 registered price rises of up to 0.38 pt, while IPIC papers maturing in 2017 were down by 0.13 pt.

As to papers issued by financial institutions, prices of ADCB'19 (offering a coupon of 3%), '19 (offering a coupon of 2.75%) and '20 rose by 0.38 pt, 0.50 pt and 0.31 pt respectively over the week. In contrast, FGB'17, '19 and '20 were down by up to 0.31 pt. NBAD'17, '19 and '20 closed down by 0.13 pt each. Fitch placed FGB's long and short-term IDRs, Support Rating Floor and Viability Rating on Rating Watch Positive (RWP). The agency also affirmed all support-driven ratings of National Bank of Abu Dhabi with "stable" outlooks and placed NBAD's VR on Rating Watch Negative (RWN). The RWP on FGB's IDRs and SRF reflects Fitch's view of potentially higher support propensity of the bank by the UAE authorities and the government of Abu Dhabi after completion of its merger with NBAD. The affirmation of NBAD's SRF at "AA-" reflects the bank's current flagship status and high systemic importance in the UAE and Abu Dhabi in particular and Fitch's view that NBAD would retain its importance and status after the merger.

In Dubai, sovereigns maturing in 2017, 2021, 2029 and 2043 saw weekly price increases of up to 1.13 pt. In contrast, DEWA papers maturing in 2016, 2018 and 2020 posted a retreat of 0.19 pt, 0.25 pt and 0.63 pt respectively. DP World'17 and '20 were down by 0.13 pt each, while DP World'23 and '37 closed up by 0.25 pt and 2.75 pts respectively. MAF'24 and '25 traded down by 0.75 pt and 0.50 pt respectively, while MAF Perpetual was up by 0.63 pt.

In the Egyptian credit space, sovereigns maturing in 2020 closed down by 0.25 pt, while sovereigns maturing in 2025 and 2040 traded up by 2.75 pts and 4.50 pts respectively over the week. Egypt announced plans to tap the international bond markets for US$ 3 billion to US$ 5 billion in FY 2017, with the first tranche expected between September 2016 and March 2017.

In Saudi Arabia, SABIC'20 traded up by 0.50 pt week-on-week. In contrast, SECO papers maturing between 2022 and 2044 registered price declines of up to 4.00 pts. Prices of Dar Al Arkan'18 and '19 decreased by 0.50 pt each. In the Kuwaiti credit space, KIPCO'20 closed up by 0.38 pt, while KIPCO'23 was down by 0.13 pt. Regarding plans for new issues, Saudi Arabia hired six banks to arrange the sale of at least US$ 10 billion. Kuwait, which plans to raise as much as US$ 9.9 billion from a bond issue, showed willingness to liaise with KSA on the timing of its debt sale.

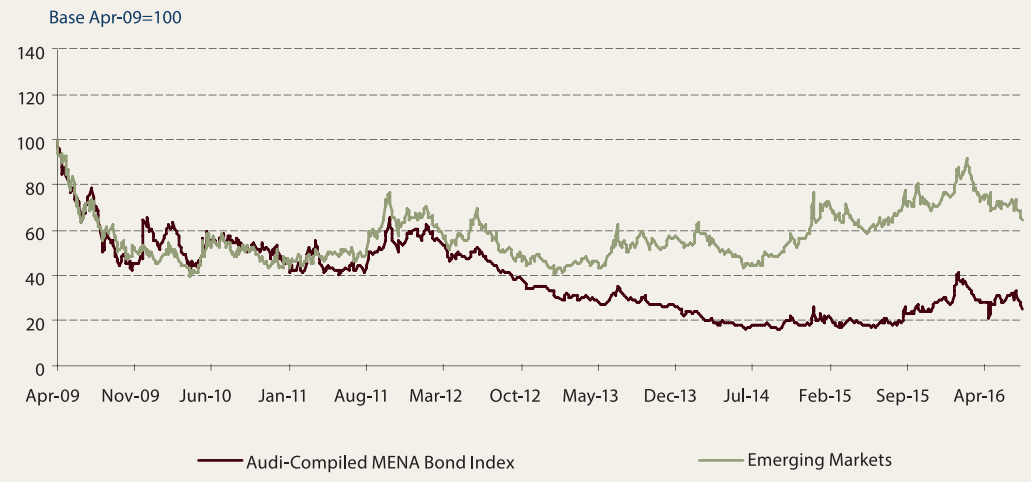
In Bahrain, sovereigns maturing in 2018, 2020, 2022, 2023 and 2026 registered weekly price gains of 0.13 pt to 0.88 pt, while Bahrain'44 was down by 0.63 pt. The government plans to issue BHD 300 million worth of bonds in July 2016.

MIDDLE EAST 5Y CDS SPREADS V/S INTL BENCHMARKS

in basis points	15-Jul-16	08-Jul-16	31-Dec-15	Week-on-week	Year-to-date
Abu Dhabi	80	81	93	-1	-13
Dubai	170	178	234	-8	-64
Qatar	103	102	93	1	10
Saudi Arabia	165	173	156	-8	9
Bahrain	391	390	367	1	24
Morocco	197	206	207	-9	-10
Egypt	496	501	478	-5	18
Lebanon	467	466	422	1	45
Iraq	806	878	931	-72	-125
Middle East	**320**	**331**	**331**	**-11**	**-11**
Emerging Markets	**444**	**431**	**598**	**13**	**-154**
Global	**227**	**241**	**260**	**-14**	**-33**

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-/Stable/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	BB+/Stable/B
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$)	15-Jul-16	08-Jul-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)	8.87	8.88	7.83	-0.1%	13.3%
Iraqi Dinar (IQD)	1,194.13	1,194.13	1,165.00	0.0%	2.5%
GULF					
Saudi Riyal (SAR)	3.75	3.75	3.75	0.0%	-0.1%
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%	-0.7%
Bahraini Dinar (BHD)	0.38	0.38	0.38	0.1%	0.3%
Omani Riyal (OMR)	0.39	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)	111.11	109.89	107.53	1.1%	3.3%
Moroccan Dirham (MAD)	9.82	9.83	9.91	-0.1%	-0.9%
Tunisian Dinar (TND)	2.22	2.21	2.03	0.3%	9.1%
Libyan Dinar (LYD)	1.39	1.37	1.40	1.6%	-0.8%
Sudanese Pound (SDG)	6.45	6.45	6.45	0.0%	0.0%

Sources: Bloomberg, Bank Audi's Group Research Department