



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

In addition to bearish oil prices, four main events that impacted GCC bond markets last week were a) unresolved status of the diplomatic impasse with Qatar; b) update from Dana Gas about rationale for declaring its sukuk unlawful; c) Moody's downgrade of outlook to negative on its ratings on Qatar sovereign and Qatari banks and d) Fitch's downgrade of 5 Omani bank's ratings outlooks to negative.

Moreover, yield curves for major developed market sovereign bonds steepened with yields on shorter dated bonds declining and that on longer dated bonds rising. Yields on 2yr, 5yr, 10yr and 30yr UST closed at 1.40% (-1bp), 1.95% (+2bps), 2.39% (+4bps) and 2.93% (+6bps) respectively. Across the pond, yield on 2yr German Bunds declined to -0.61% (-1bp) while those on 10yr closed 10bps higher at 0.57%.

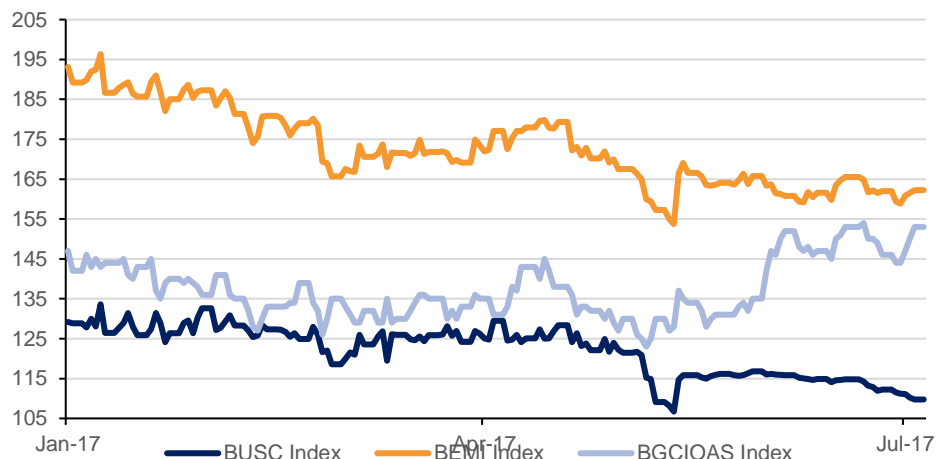
Against this challenging backdrop for bonds in general, GCC bonds waned as risk of higher than projected budget deficits in the region increased as a consequence of oil prices unhinging from the psychological \$50 / b mark. Average option adjusted spreads on Bloomberg Barclays GCC index increased 9bps to 153bps. In conjunction with higher benchmark yields, total average yield on the index rose 12bps to 3.59% causing most bonds to fall in price.

As is expected post negative rating actions, bonds from Qatar and Oman were the main underperformers during the week. In contrast, shorter dated bonds, including perpetual bonds that have call dates within the next 2 -3 years held up in price and were among the top 10 performers.

Moody's had downgraded Qatar's rating to Aa3 in late May, before the eruption of the current crisis, citing concerns about rising debt levels. This was followed by one notch downgrade to AA- by S&P in early June. Concerns about negative impact of the current sanctions and embargos on Qatar's economy and banking systems is worrying the rating agencies with all three of them having placed their respective ratings (AA-/Aa3/AA) either on negative outlook or negative credit watch. Yield on QATAR 30s increased by 14bps to 4.14% and price fell by more than three points while that on shorter dated QATAR 20s fell by nearly a point and a half. 5yr CDS spread on Qatar increased another 9bps to 125bps and compares unfavorably to even lower rated peers such as Malaysia (rated A) at 89bps or even A- rated Thailand at 64bps. Continued political uncertainty is likely to keep investors at bay in the short term even though Qatar's foreign assets comfortably outweigh its foreign liabilities and credit rating is likely to remain well in the high grade category.

Fitch affirmed ratings on Bank Muscat (BBB), Ahli Bank (BBB-), Bank Dhofar (BBB-) and Bank Sohar (BBB-), however revised the rating outlook to negative, citing concerns about Oman sovereign's weakening financial flexibility to support its banking system due to lower oil prices. Fitch noted that the fiscal policy response to the drop in oil prices has not prevented a significant deterioration in public finances. National Bank of Oman's rating and outlook were affirmed at BBB-/stable as a result of its Viability Rating already being at BBB- which is unlikely to be impacted by a one notch downgrade of the sovereign, if eventuated. Oman 47 was the worst performing security during the week, falling nearly five points in price and 15bps increase in Z-spread to 402bps.

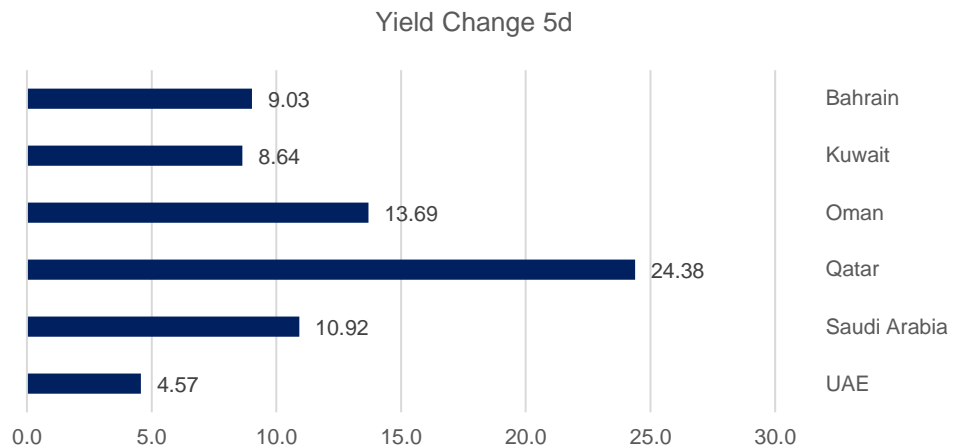
GCC vs EM IG bonds and US IG Bonds – OAS history (bps)



Source: Bloomberg, Emirates NBD Research

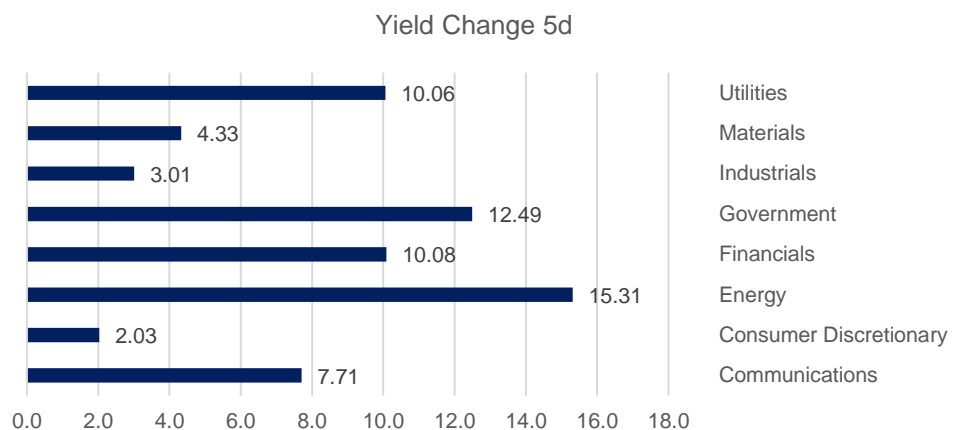
Investor update call hosted by Dana Gas late last week provided little new information. Price on Dana Gas sukuk, schedule to mature in October 2017, fluctuated in the \$75 - \$80 band. As per some media reports, Dana Gas has been successful in seeking extension to the UK court order stopping investors from taking legal action, however, the company is required to ensure that it does not engage in any asset sales or dividend payments in the interim. A full court hearing is likely in September this year.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

GCC Bonds – Yield To Workout Change by BICS Sector

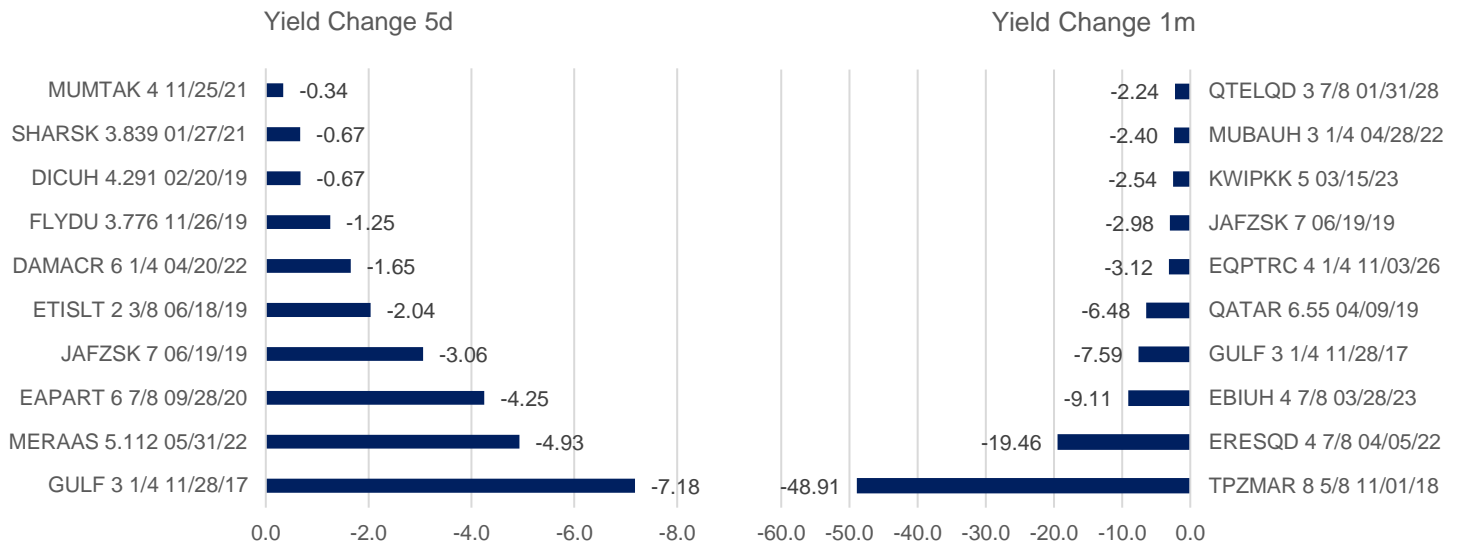


Source: Bloomberg, Emirates NBD Research

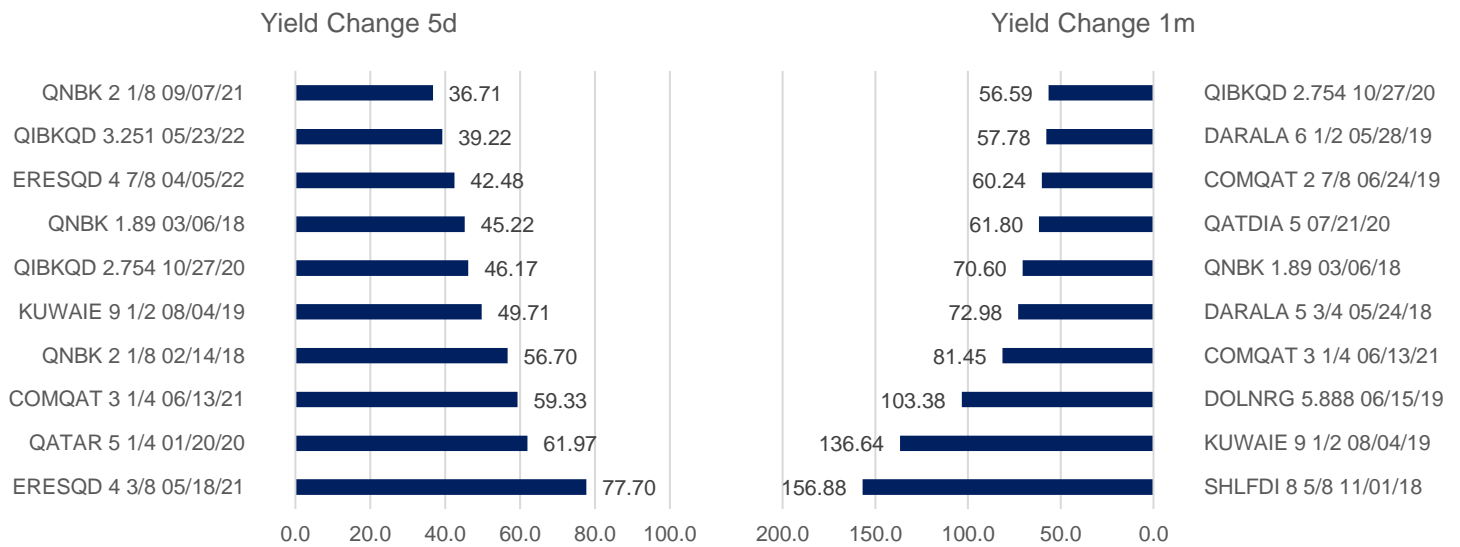
Primary Market in the region is yet to fire up post the Ramadan induced hibernation. The only deal done during the week was the privately placed \$320 million zero coupon security by ADCB finance.

Performance

GCC Bonds - Top 10 Yield To Workout Changes



GCC Bonds - Bottom 10 Yield To Workout Changes



Source: Bloomberg, Emirates NBD Research

New Issue Monitor

Issuer Name	Security Name	Cpn	Maturity	Issue Date	Issue Price	Current Price	5d Change	YTW
Oman Sovereign Sukuk SAOC	OMANGS 4.397 06/01/24	4.397	6/1/2024	6/1/2017	100.000	98.250	13.835	4.697
Meraas Sukuk Ltd	MERAAS 5.112 05/31/22	5.112	5/31/2022	5/31/2017	100.000	101.218	-4.930	4.828
NBK SPC Ltd	NTBKKK 2 3/4 05/30/22	2.75	5/30/2022	5/30/2017	99.491	98.888	5.640	2.996
QIB Sukuk Ltd	QIBKQD 3.251 05/23/22	3.251	5/23/2022	5/23/2017	100.000	95.881	39.216	4.195
OmGrid Funding Ltd	OMGRID 5.196 05/16/27	5.196	5/16/2027	5/16/2017	100.000	100.119	11.792	5.181
Acwa Power Management And Investments One Ltd	INTLWT 5.95 12/15/39	5.95	12/15/2039	5/15/2017	100.000	101.746	4.877	5.752
Alpha Star Holding III Ltd	DAMACR 6 1/4 04/20/22	6.25	4/20/2022	4/20/2017	100.000	102.107	-1.650	5.737
KSA Sukuk Ltd	KSA 2.894 04/20/22	3.628	4/20/2027	4/20/2017	100.000	99.517	19.707	3.003
KSA Sukuk Ltd	KSA 3.628 04/20/27	2.894	4/20/2022	4/20/2017	100.000	101.101	11.812	3.494
MDC-GMTN BV	MUBAUH 3 04/19/24	3	4/19/2024	4/19/2017	99.375	98.375	5.217	3.269
MDC-GMTN BV	MUBAUH 3 3/4 04/19/29	3.75	4/19/2029	4/19/2017	99.981	98.968	4.783	3.859
Dar Al-Arkan Sukuk Co Ltd	DARALA 6 7/8 04/10/22	6.875	4/10/2022	4/10/2017	98.964	97.198	18.350	7.585
Ezdan Sukuk Co Ltd	ERESQD 4 7/8 04/05/22	4.875	4/5/2022	4/5/2017	99.453	92.121	42.482	6.850
Al Ahli Bank of Kuwait KSCP	ALAHKW 3 1/2 04/05/22	3.5	4/5/2022	4/5/2017	99.569	101.023	3.658	3.264

ADCB Finance Cayman Ltd	ADCBUH 0 04/05/47	0	4/5/2047	4/5/2017	100.000	100.000	0.291	5.076
First Abu Dhabi Bank PJSC	FABUH 3 03/30/22	3	3/30/2022	3/30/2017	99.995	100.294	2.728	2.932
Kuwait International Government Bond	KUWIB 2 3/4 03/20/22	2.75	3/20/2022	3/20/2017	99.366	100.135	4.377	2.719
Kuwait International Government Bond	KUWIB 3 1/2 03/20/27	3.5	3/20/2027	3/20/2017	99.026	101.325	12.298	3.338
Oman Government International Bond	OMAN 6 1/2 03/08/47	6.5	3/8/2047	3/8/2017	99.360	99.459	23.298	6.541
Oman Government International Bond	OMAN 5 3/8 03/08/27	5.375	3/8/2027	3/8/2017	99.618	100.937	19.775	5.249
Oman Government International Bond	OMAN 3 7/8 03/08/22	3.875	3/8/2022	3/8/2017	99.488	99.425	14.929	4.011
BOS Funding Ltd	BOSUH 4.23 03/07/22	4.23	3/7/2022	3/7/2017	100.000	101.748	2.133	3.816
QNB Finance Ltd	QNBK 1.89 03/06/18	1.89	3/6/2018	3/6/2017	100.000	99.229	45.224	3.059
Kuwait Projects Co SPC Ltd	KWIPKK 4 1/2 02/23/27	4.5	2/23/2027	2/23/2017	100.000	100.131	2.287	4.482
ABQ Finance Ltd	ABQKQD 3 1/2 02/22/22	3.5	2/22/2022	2/22/2017	99.442	97.108	24.381	4.195
Equate Sukuk Spc Ltd	EQPCKW 3.944 02/21/24	3.944	2/21/2024	2/21/2017	100.000	101.175	4.806	3.741
DIB Sukuk Ltd	DIBUH 3.664 02/14/22	3.664	2/14/2022	2/14/2017	100.000	101.339	1.294	3.346
ADCB Finance Cayman Ltd	ADCBUH 0 02/07/47	0	2/7/2047	2/7/2017	100.000	100.000	0.284	4.922
ICD Sukuk Co Ltd	INVCOR 5 02/01/27	5	2/1/2027	2/1/2017	99.565	104.427	2.283	4.426
Oman Sovereign Sukuk SAOC	OMANGS 4.397 06/01/24	4.397	6/1/2024	6/1/2017	100.000	98.250	13.835	4.697
Meraas Sukuk Ltd	MERAAS 5.112 05/31/22	5.112	5/31/2022	5/31/2017	100.000	101.218	-4.930	4.828

Source: Bloomberg, Emirates NBD Research

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