



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

Stronger than expected employment data, higher annualized hourly wage growth and further progress on the tax reform bill – all combined to create a sentiment of hawkishness last week. The UST curve reversed some of its previous month's flattening bias with 2yr, 5yr, 10yr and 30yr yields closing at 1.79% (-2bps), 2.14% (unchanged), 2.38% (+1bp) and 2.77% (+1bp) respectively. Risk on sentiment fueled demand for credit causing CDS levels on US IG and Euro Main to lose lower during the week at 51bps (-2bps) and 48bps (-2bps) respectively.

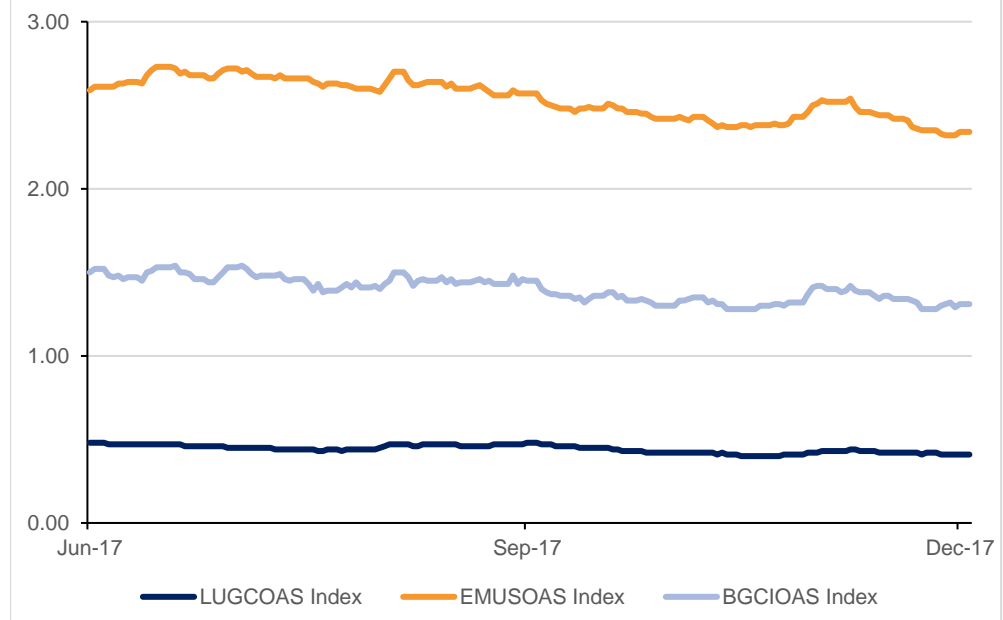
Corporate bonds across the globe had a week of range-bound trading ahead of the meetings of the three major central banks this week (Fed, BoE and ECB). Activity in the local GCC bond market was also muted with no major event and minimal new issue during the week. Barclays GCC index closed with yields unchanged at 3.54%, though credit spreads were a touch wider at 131 bps (+1bp) during the week.

In compliance with the OPEC oil production cuts agreement, output from Saudi Arabia, the biggest producer within OPEC, dropped 40,000 barrels a day to 9.97 million a day over the month of November. However, output in Iraq, the second-biggest producer within OPEC, recovered by 40,000 barrels a day to 4.39 million a day, as some disruptions were resolved in Kurdistan region. Nevertheless, Oil traded on firmer grounds as OPEC and some non-members including Russia decided on Nov. 30 to extend their deal to curb production until the end of next year.

Higher oil prices are expected to reduce the government budget deficits next year and is the main reason behind better profits for likes of SABIC and TAQA this year. SABIC earlier had reported 3Q net profit of SAR 5.79 billion, materially ahead of expectations of SAR 4.11 billion and plans to expand its investment in the JV with Sinopec in China.

News about EU blacklisting 17 countries including Bahrain and UAE as tax havens lacking transparency and compliance with WEU standards is not expected to have material impact on the local markets as at now as there is no imposition of sanctions or restrictions apart from limiting access to EU development fund.

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



Source: Bloomberg, Emirates NBD Research

During the week, Moody's released a report on GCC banks, citing stable outlook. Moody's expects problems loans for region's banks to edge higher in 2018 following sluggish economic activity in 2017, and banks to remain vulnerable to high borrower and sector loan concentrations, however low cost and stable deposit based funding, combined with elevated liquidity buffers are expected to keep credit strength of region's banks intact.

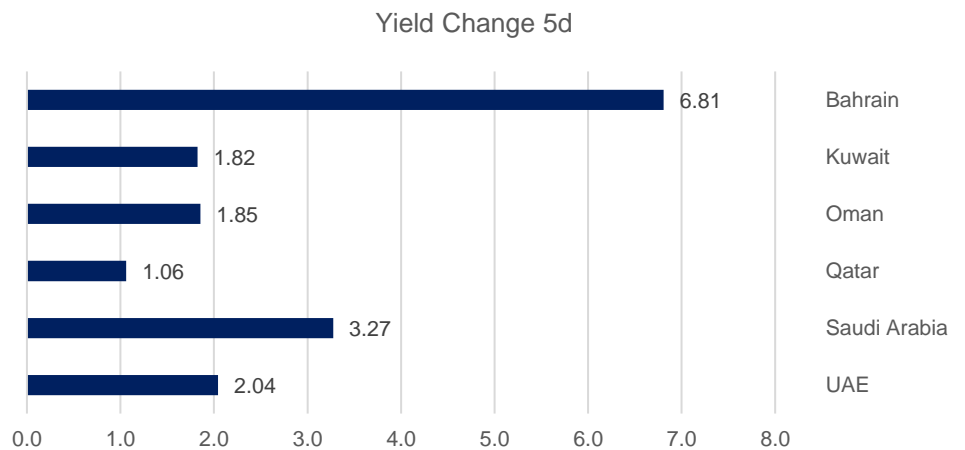
The Qatar conflict is no closer to any resolution as state heads from Saudi and UAE failed to attend the GCC summit last week. Bonds from Qatar were largely unchanged.

Perpetual securities fared well during the week as most of them have call dates in the next two to four years and therefore benefited from falling yields at the shorter end of the benchmark yield curve.

Evolving situation at EA Partners as well as the Dana Gas had minimal credit implications. Nevertheless securities from these two issuers remained under pressure. EAPART 20s closed down by two points with yield at 19.62% (+136bps) though DANAGS 17 closed unchanged at \$82.69

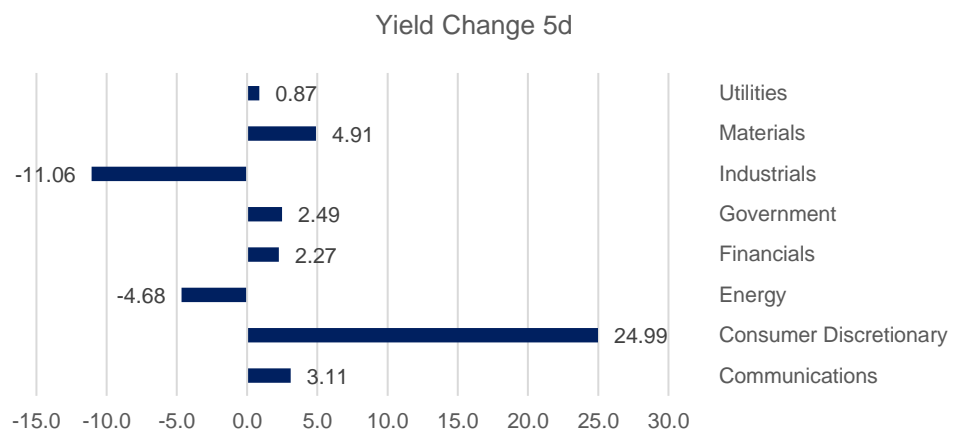
During the week, BB+ rated (by Fitch) Emirates REIT, which has partial government ownership priced its 5yr \$400 million sukuk at 5.125% against orders worth over \$950 million. Nevertheless, secondary market debut of the security was weak with yield rising a bp to 5.13%.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

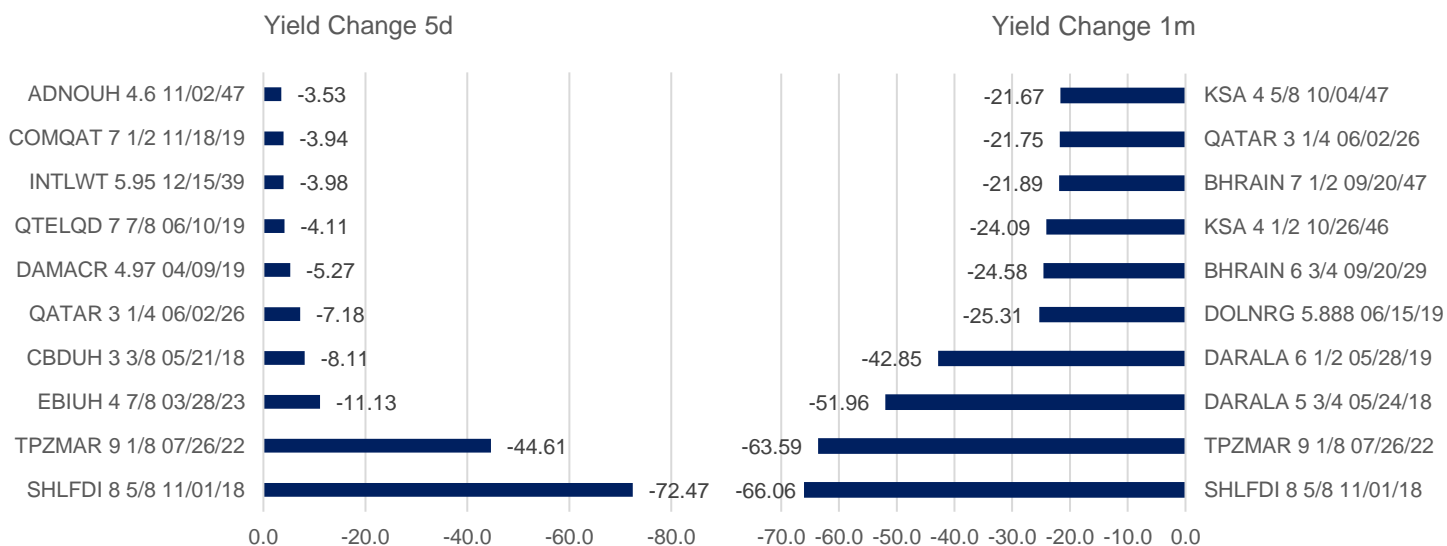
GCC Bonds – Yield To Workout Change by BICS Sector



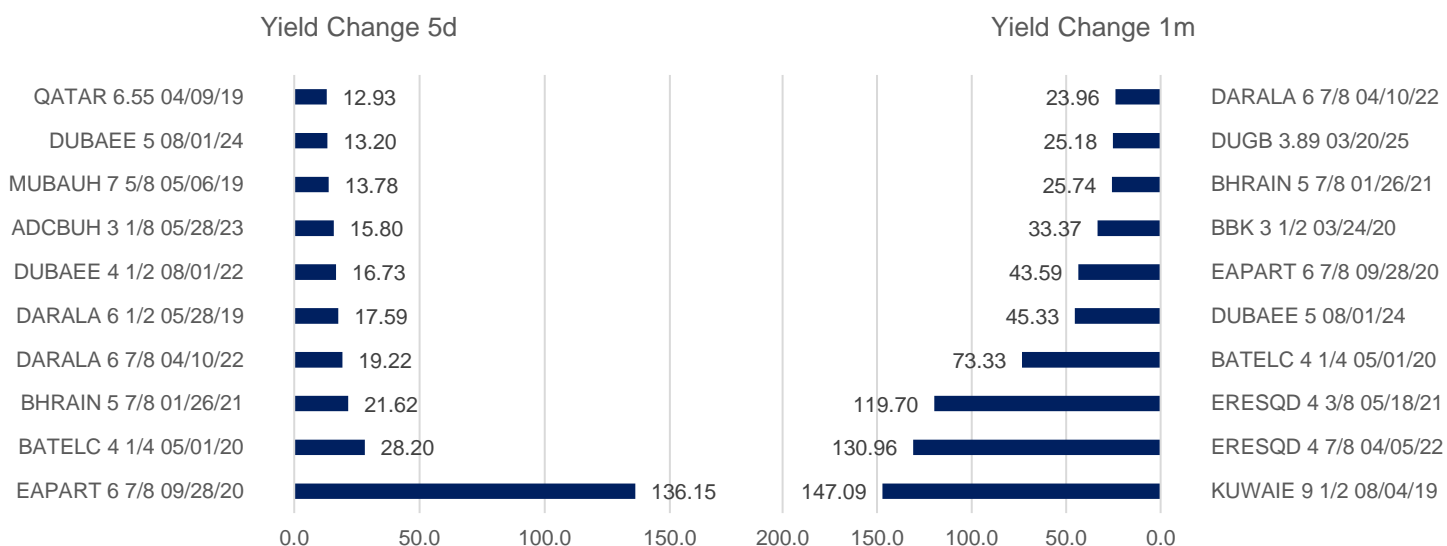
Source: Bloomberg, Emirates NBD Research

Performance

GCC Bonds - Top 10 Yield To Workout Changes



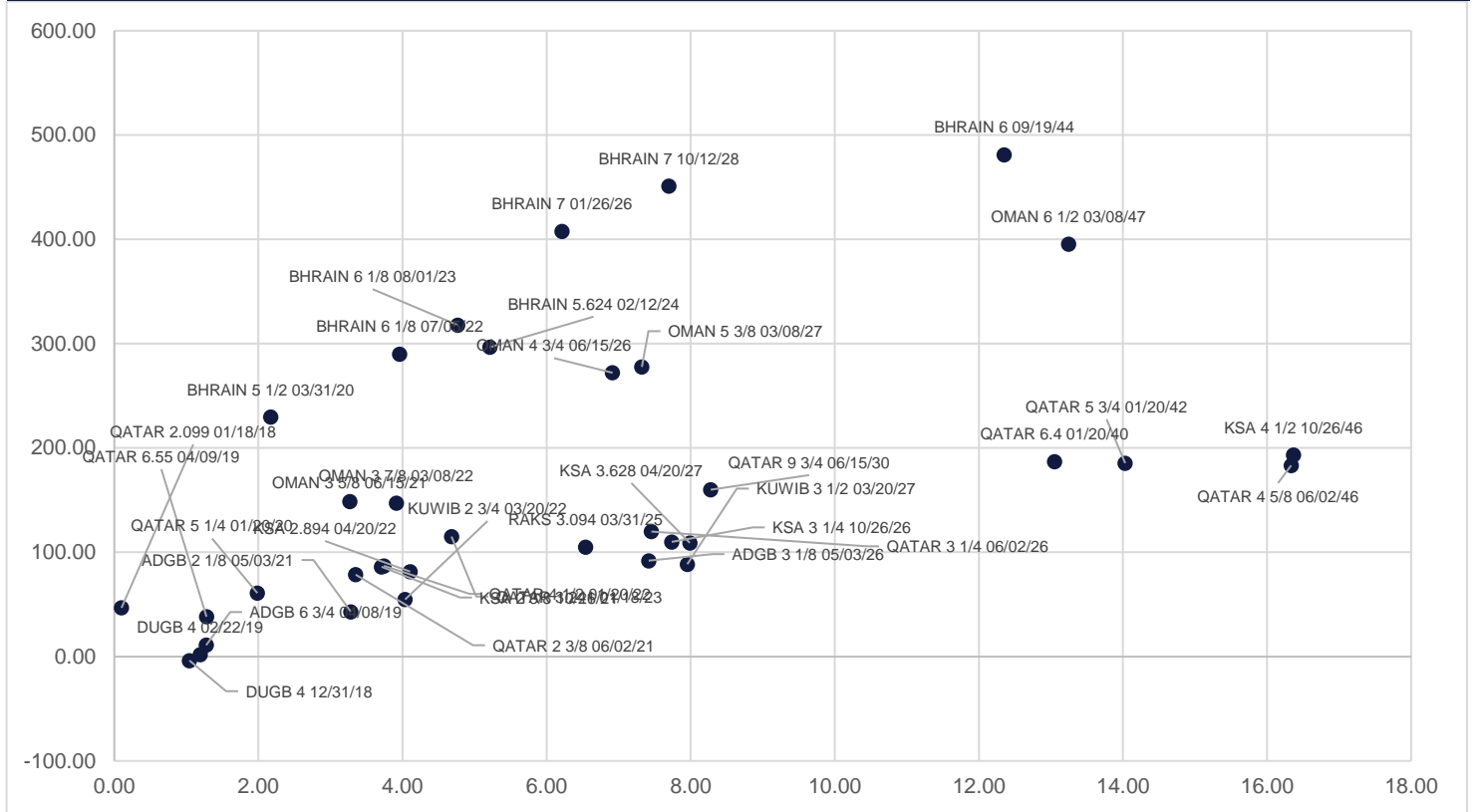
GCC Bonds - Bottom 10 Yield To Workout Changes



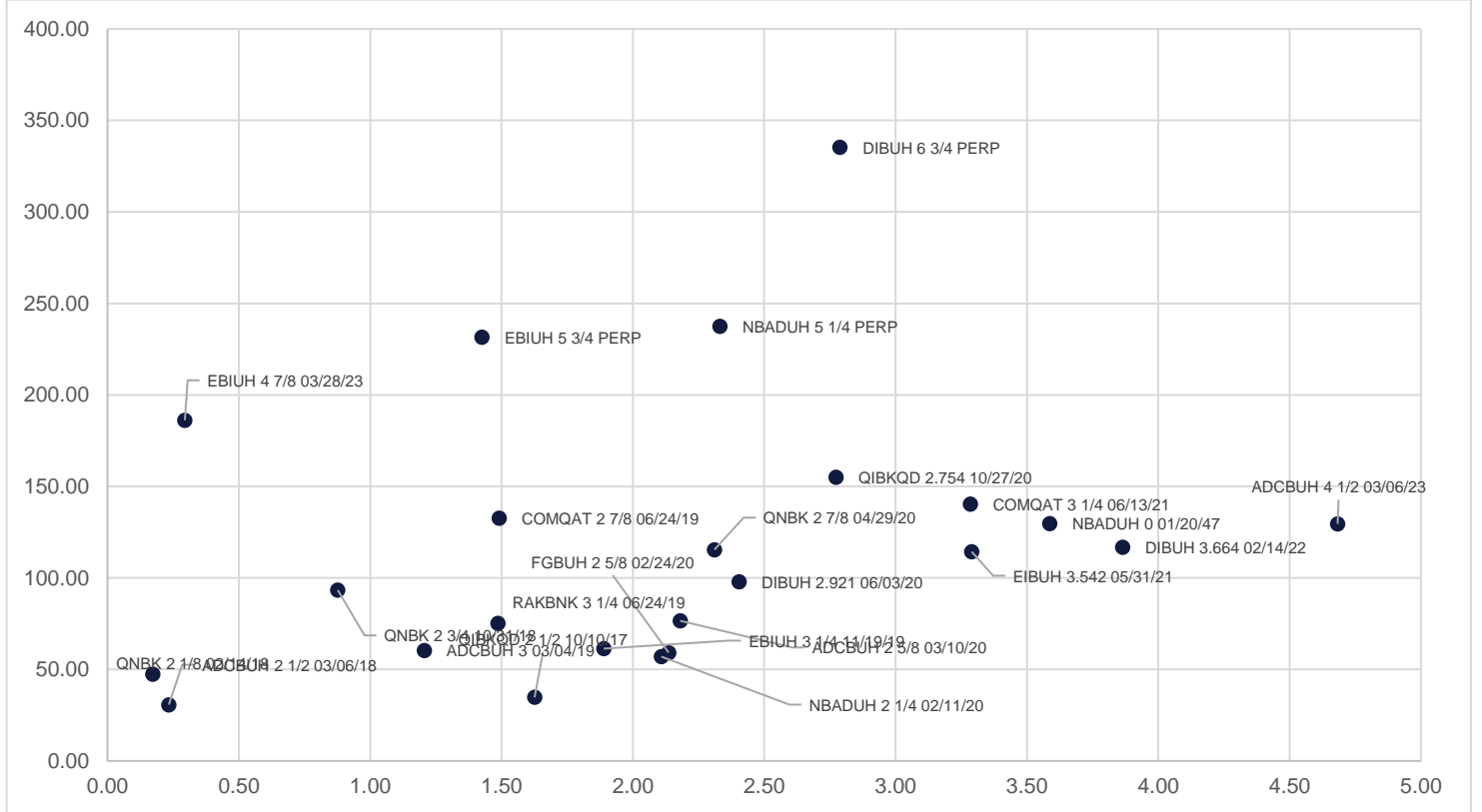
Source: Bloomberg, Emirates NBD Research

Relative Value

Sovereigns



Banks



Source: Bloomberg, Emirates NBD Research

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