



بنك الإمارات دبي الوطني  
Emirates NBD

## Credit Weekly

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# GCC Credit Weekly

Yields on shorter dated US treasuries that began surging following President Trump's election victory in late 2016, kept climbing through much of 2017 and have stuck to the same trend over the first two weeks of trading in 2018. Stronger than expected inflation data on Friday pushed yields on 2yr treasuries up by 4bps to close the week at 2.0% while those on 10yr increased 6 bps to 2.55%. The synchronized economic growth around the world is raising hopes of wage pressures and ultimately higher inflation in the coming months. This coupled with reduced QE by central banks steered sovereign and corporate bonds towards bear markets.

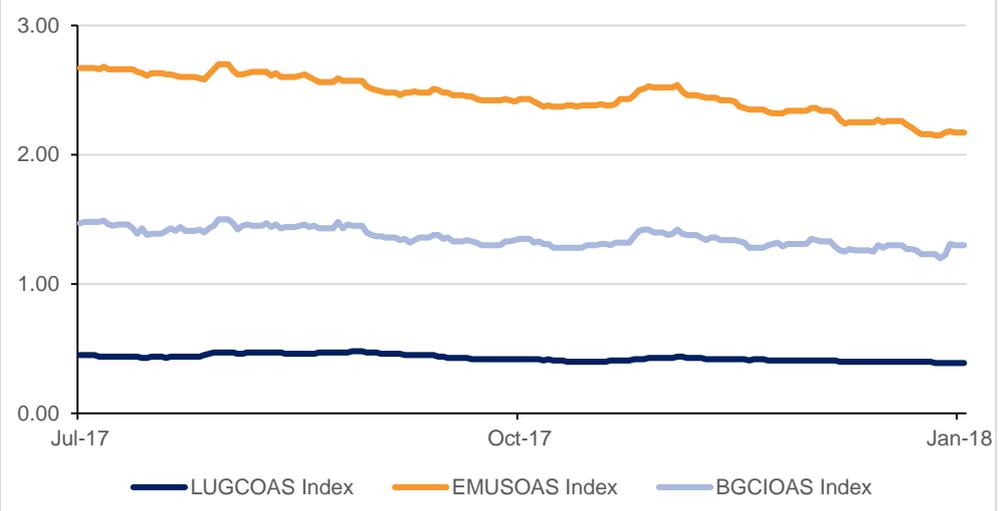
Global credit spreads were largely range bound during the week with CDS levels on US IG and euro Main closing unchanged at 47bps and 44bps respectively. Rising oil prices also supported tightening in CDS levels on GCC sovereigns (barring those on Bahrain). 5yr CDS spreads on Saudi Arabia and Qatar both tightened 6bps during the week to close at 82bps and 92bps respectively.

However, GCC cash bonds suffered from large new supply and increasing geopolitical risk in the region. Also increasing benchmark yield on the long end of the UST curve affected longer dated GCC sovereign bonds negatively. ADGB 47s, KSA 47s, Qatar 46s, Oman 47s etc all lost more than a point in price during the week. Most GCC bonds fell in price with yield on Barclays GCC bond index rising 13bps to 3.70% and average credit spreads on the index widening 7bps from 123bps to 130bps during the week.

In the face of ongoing legal dispute about legality of its \$700 million sukuk, Dana Gas plans to bid for new energy development rights in Iraq. The company's improved cashflow position and reasonable possibility of favorable outcome of the legal dispute is supporting bid for Dana Gas sukuk even after the company's default on coupon and principal payment that were due in October last year. Yield on DANAGS 9% 2017s sukuk tightened another 9bps to 9.98% last week.

S&P released a report on Gulf banks highlighting three key risks that the industry faces- loan growth, a higher cost of risk, and lower profitability. However outlook on the industry still remains stable, barring that in Qatar where the current boycott by its neighbours may impact creditworthiness of banks in Qatar negatively.

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



Source: Bloomberg, Emirates NBD Research

S&P also affirmed Abu Dhabi's rating at AA/Stable citing its large net asset position and expectation of economic growth to recover to 3% by 2020-21. Z-spread on ADGB 27 has reduced from 105bps in November last year to 92bps now although yield has increased from 3.38% in Nov 17 to 3.45% now as a result of increase in the underlying UST benchmark yield.

As per media reports, Kuwait Finance House KSCP's talks to buy Bahrain's Ahli United Bank BSC have hit a roadblock because of valuation differences between the two banks. Z-spread on AUBBI perp, with a call date in April 2020, increased 3bps to 367bps on the back of the news.

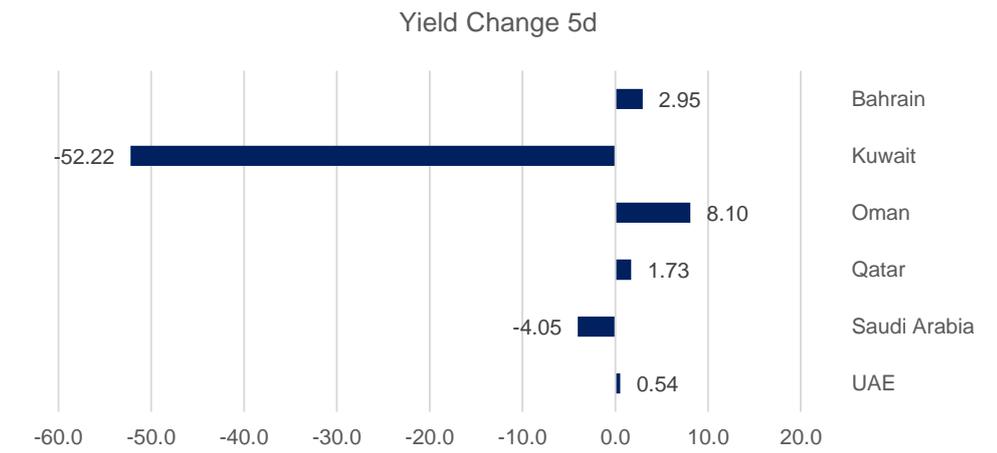
Rumours surfaced about Kuwait Energy's (rated CCC) plans to merge with Soco International Plc. After failure of its planned \$150 million IPO last year, Kuwait Energy needs additional funding to avert defaulting on existing obligation. Merger with a stronger party may offer this option. KUWAIE 19s rose circa ten points in price during the week to close with yield at 12.03% (-749bps).

DP world expects to report about 10% growth in gross volumes for 2017 on the back of stronger than expected recovery in global trade in 2017. DP World's diversified asset base, solid cash flow and manageable capex has comforted investors through 2017. 5yr CDS on DP World has reduced circa 30bps over the year to 105bps now. Yield on DPWDU 37s has also reduced from 5.95% in January 2017 to 4.88% now.

In the primary market, Oman rated BB/Baa2/BBB- by S&P, Moody's and Fitch respectively raised \$6.5 billion during the week via three tranches with 5yr pricing at T+190bps (\$1.25 billion), 10 yr at T+310bps (\$2.5 billion) and 30yr at T+395bps (\$2.75 billion). The final pricing was tighter than the initial guidance, however, still offers premium over the existing bonds and may tighten in the secondary market.

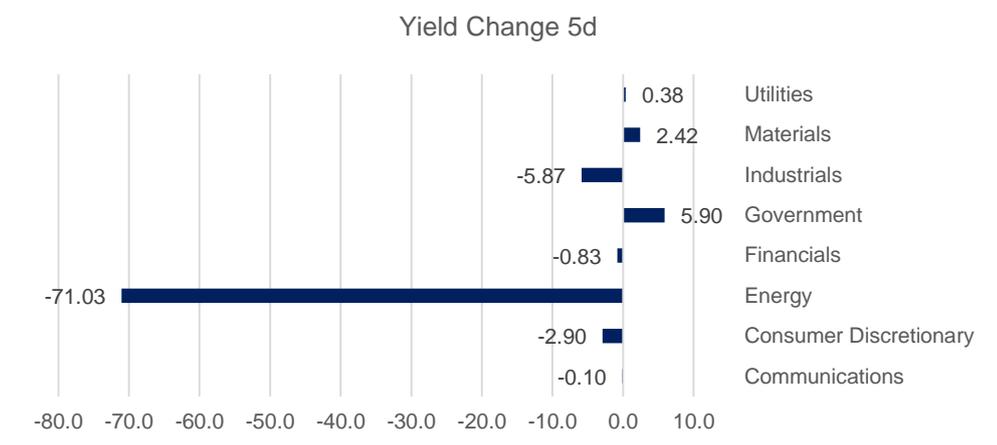
In another news, Kuwait sovereign obtained approval from its parliament to issue debt of as much as 25 billion dinars with maturity of up to 30 years.

## GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

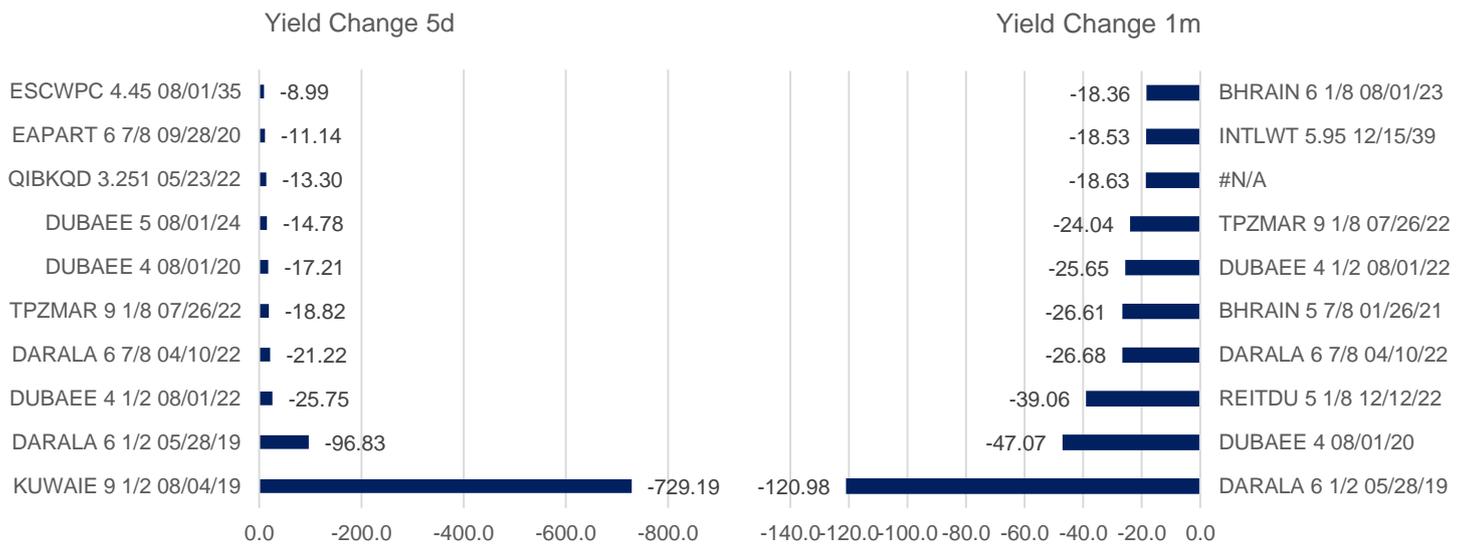
## GCC Bonds – Yield To Workout Change by BICS Sector



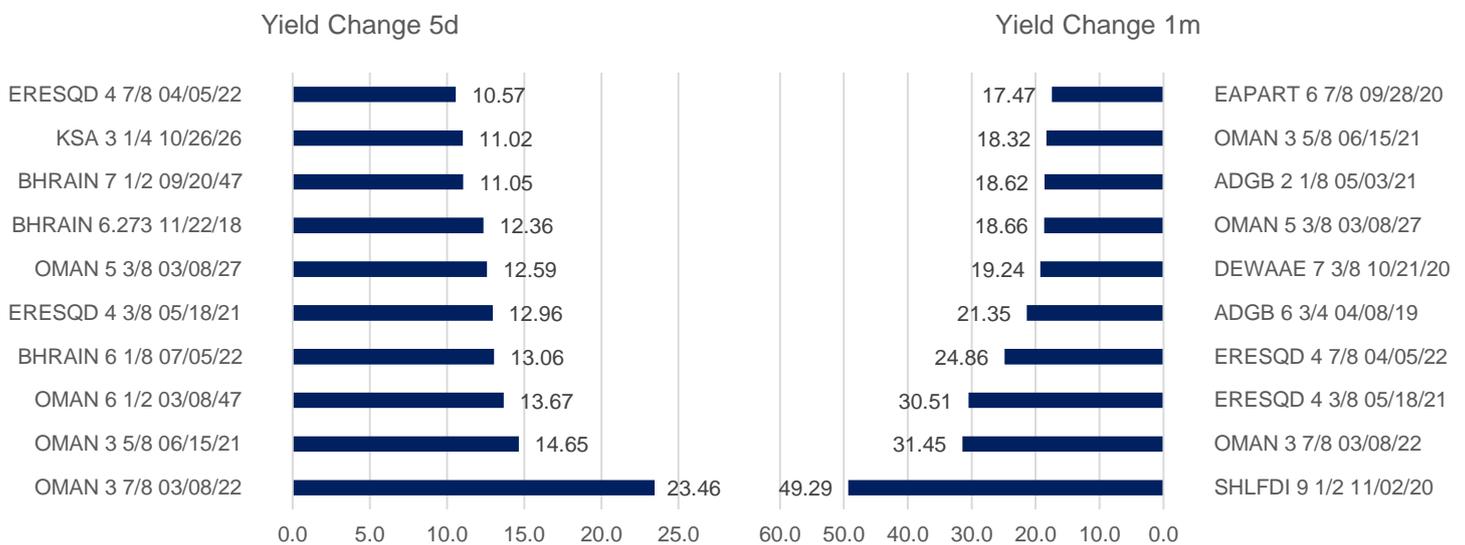
Source: Bloomberg, Emirates NBD Research

## Performance

### GCC Bonds - Top 10 Yield To Workout Changes



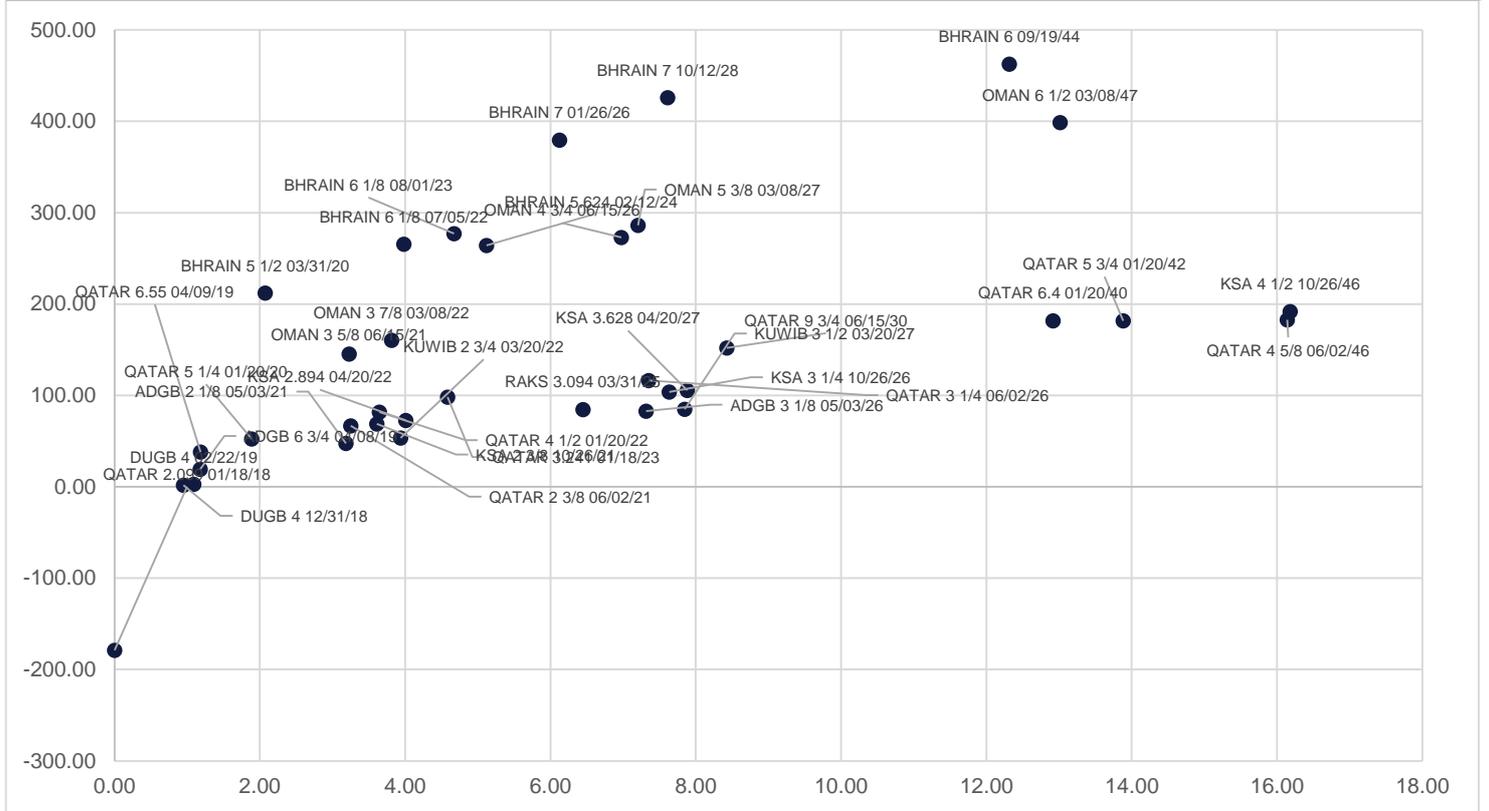
### GCC Bonds - Bottom 10 Yield To Workout Changes



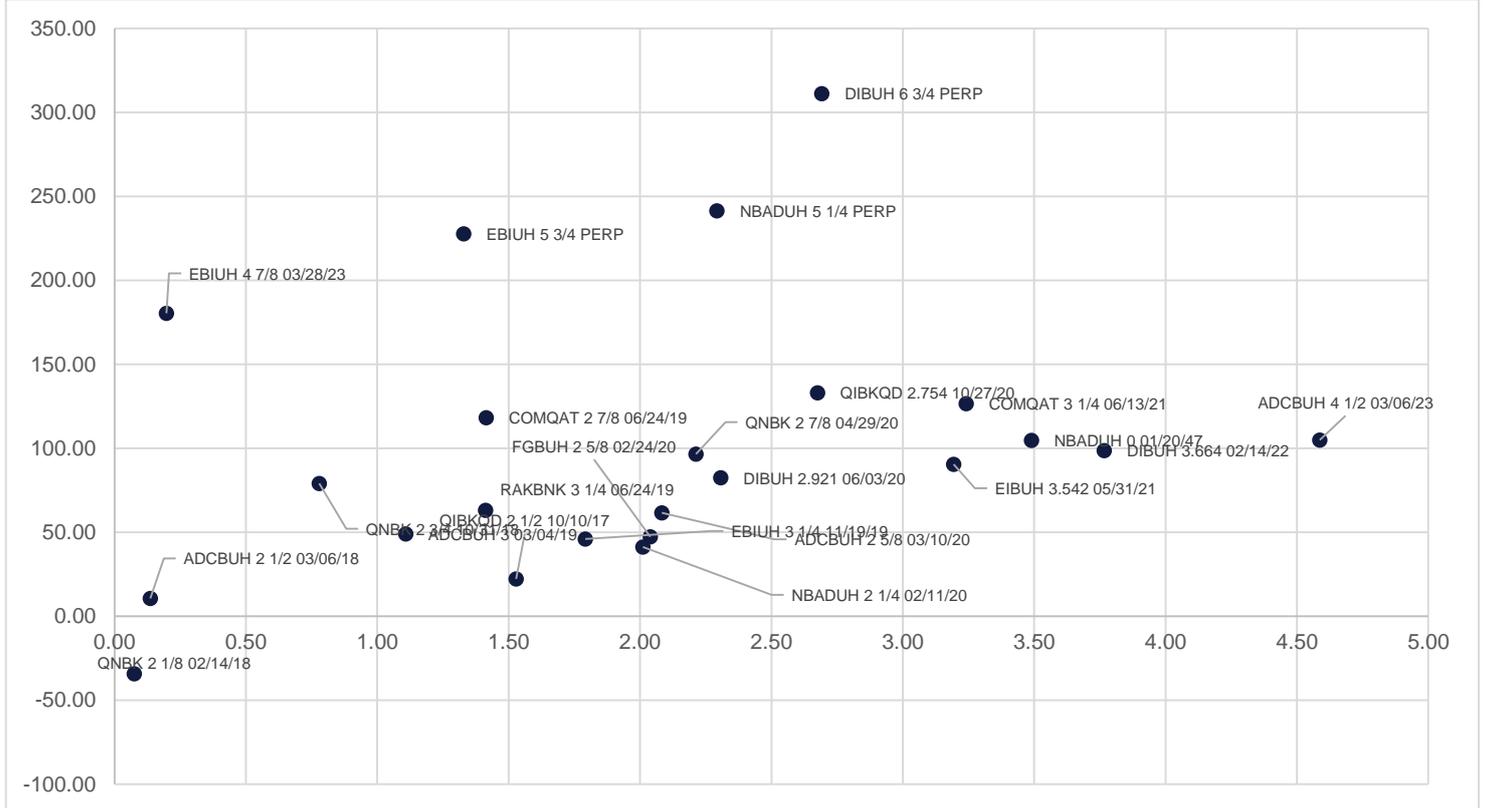
Source: Bloomberg, Emirates NBD Research

# Relative Value

## Sovereigns



## Banks



Source: Bloomberg, Emirates NBD Research

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