



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

Sovereign bonds fell across the developed world as short dated treasuries were rattled by higher than expected inflation data out of the US which raised the prospect of a December rate hike close to 50%. Yields on 2yr, 5yr, 10yr and 30yr UST closed the week at 1.38% (+6bps), 1.81% (+10bps), 2.20% (+7bps) and 2.77% (+3bps) respectively. Across the Atlantic, though we remain skeptical if BoE will raise its policy rate in the face of weakening growth and ongoing Brexit uncertainty, futures implied probability reflects more than 57% chance of a rate hike before the end of the year. Yield on 10yr Gilts were up 26bps during the week to 1.30%. Even Bund yields were up 10bps to 0.43%.

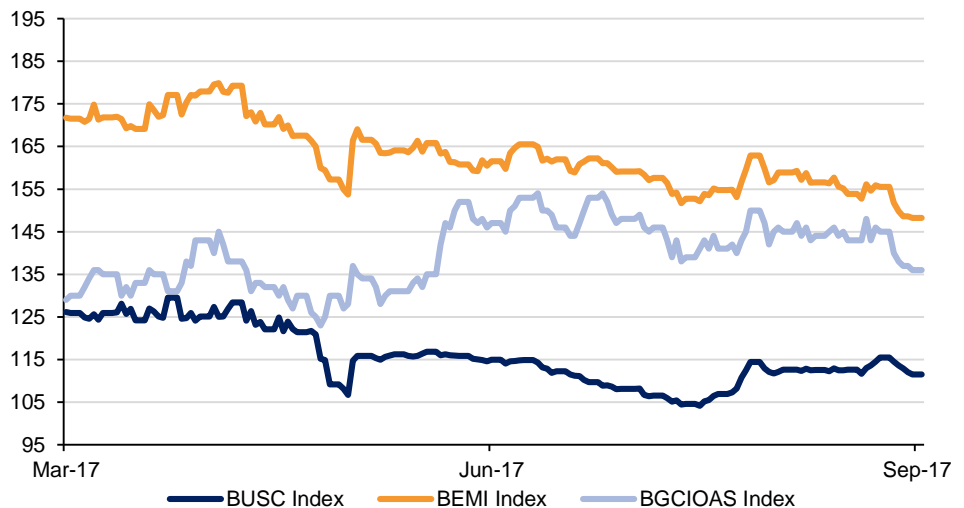
Oil prices received a boost from media reports that OPEC and its allies are discussing extending oil production cuts that expire in March 2018 by at least three months, potentially prolonging them well into the second half of next year in an effort to boost prices. Brent futures closed up by 3% to \$55.62/b.

Regional GCC bond market moved mostly in tandem with the benchmark yields. Credit spreads reflected resilience even in the face of large new issue supply of over \$3.5 billion during the week. CDS levels on GCC sovereigns traded in a tight range with Saudi Arabia, Qatar and Dubai closing at 82bps (-3bps), 90bps (unchanged) and 143bps (+1bp) respectively. Credit spreads on Bloomberg Barclays GCC index tightened four bps to 136bps though total yield widened 3bps to 3.26% during the week as benchmark yield curve shifted upwards.

During the week, Bahrain raised \$3 billion after being well oversubscribed for its 7yr, 12 yr and 30 yr tranches that priced at 5.25%, 6.75% and 7.50% respectively. Swapping / flipping activity in the Bahrain curve actually resulted in good bid tone and Bahrain bonds recorded price increases across the curve. The freshly issued BHRAIN 29s debut well in the secondary market with yield tightening a bp and price rising to \$100.10.

Bonds from Saudi Arabia, particularly the KSA curve, were under pressure in response to the announcement that the Government intends to redo the plan to overhaul its government and economy by 2020, after noting that its rushed plan launched last year led to overlap with other programs. Saudi Arabia is also believed to be preparing contingency plans for a possible delay to the IPO of Aramco by a few months into 2019. KSA 26s closed down by almost a point to \$96.65 and YTW of 3.30% (+12bps).

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

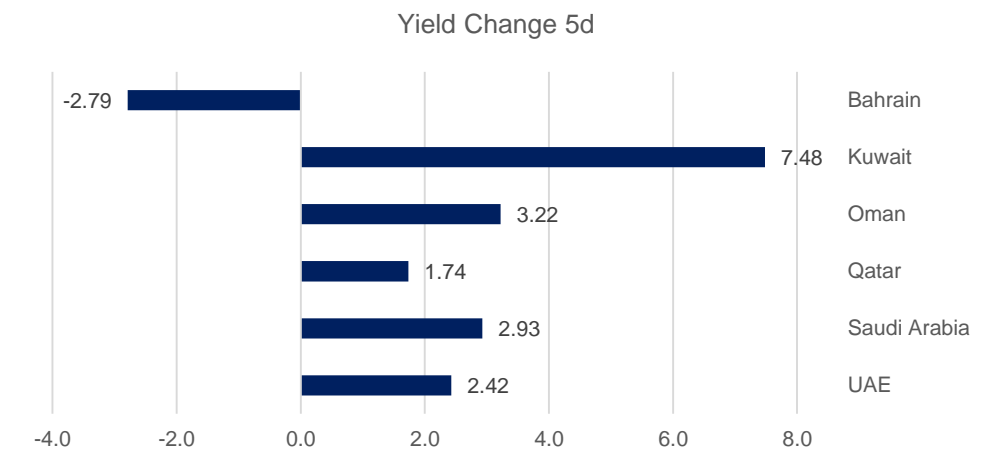


Source: Bloomberg, Emirates NBD Research

As the standoff between Qatar and its neighbours continues, Qatari banks are tapping funding sources outside of GCC. Qatar National Bank completed the sale of a \$630 million Formosa bond during the week, issuing the 30 year maturity bond in Taiwan as part of its Euro MTN Note program which pays an annual coupon of 5% and is callable every five years. The issue was arranged by Standard Chartered Plc. Nevertheless, S&P revised the outlook on Qatari Banks to negative, citing concerns about negative impact of the political rift on the Qatar economy and risks from increasing reliance on external funding. That said, impact on Qatari bonds was minimal. Z-spread on QNBK curve narrowed 5 – 15bps with QNBK 21s closing at Z-spread of 127bps (-13bps during the week).

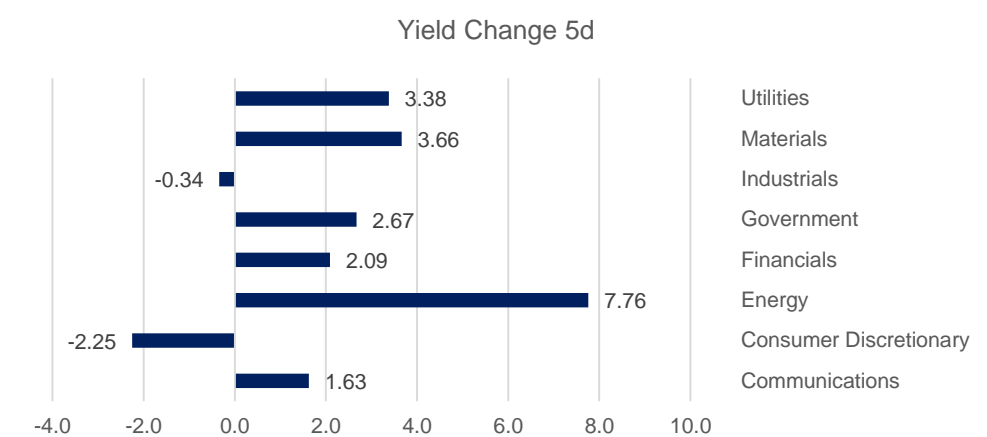
In the sukuk space, Dana Gas bondholders, including Blackrock and Goldman Sachs submitted a proposal to the company to resolve the ongoing dispute over the \$700 million sukuk. The proposal includes part payment of \$300 million and extension of the remainder for another three years. The proposal has not been accepted by the company and bond prices remained largely unchanged.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

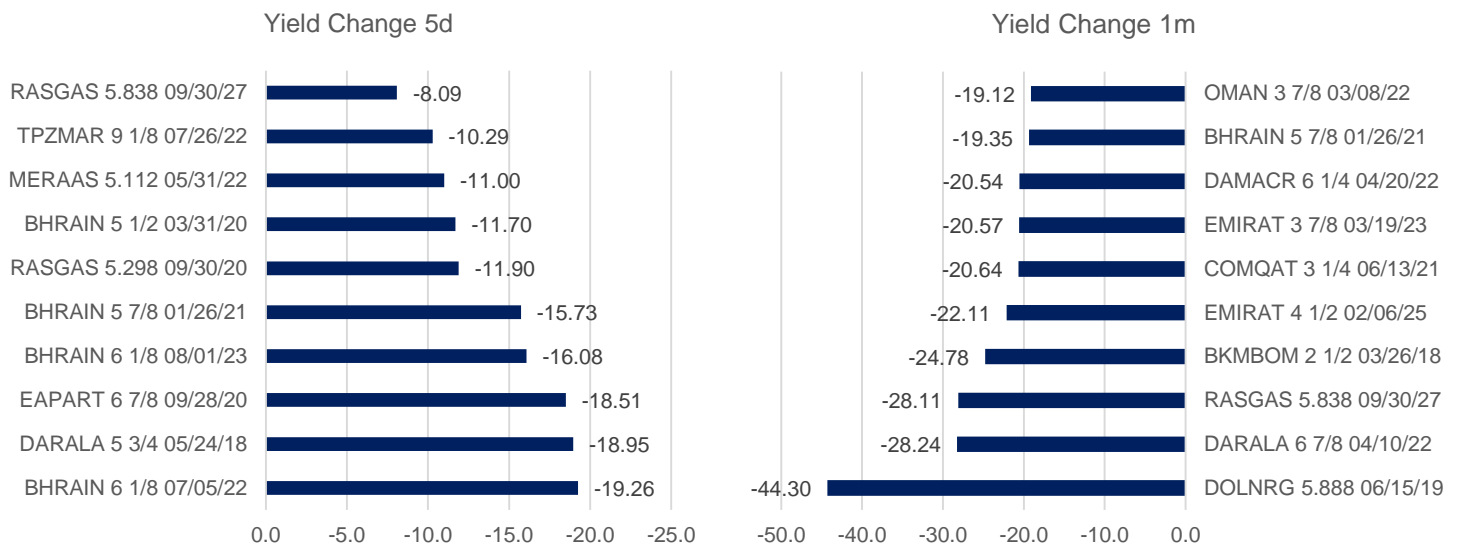
GCC Bonds – Yield To Workout Change by BICS Sector



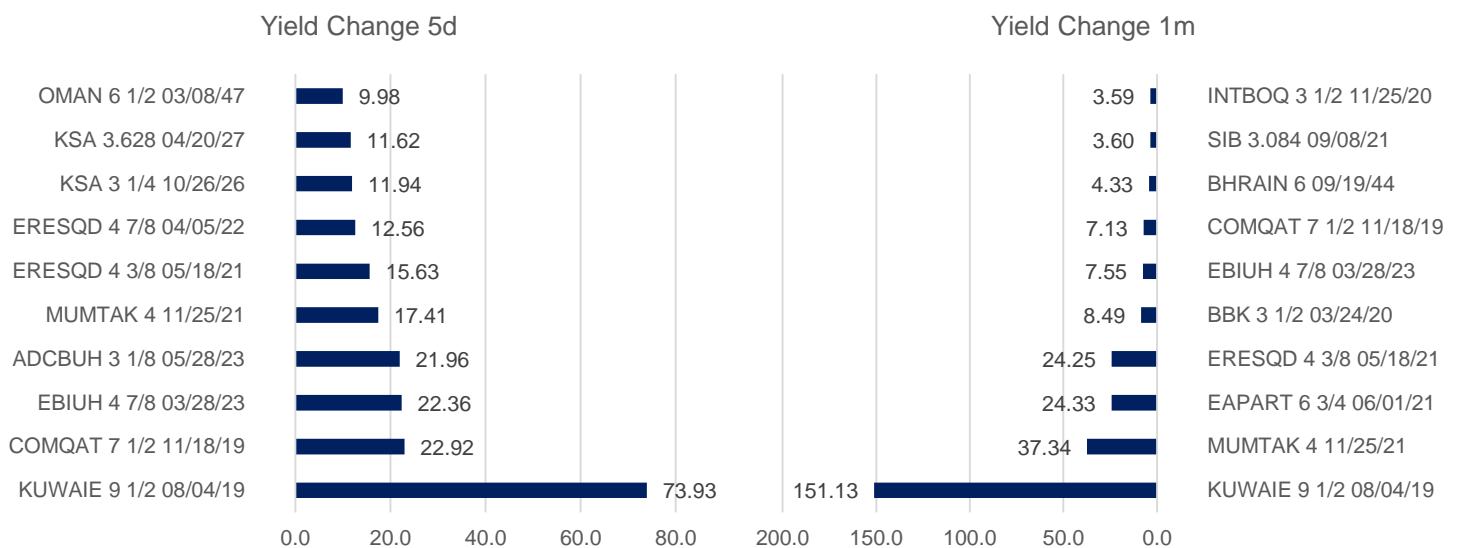
Source: Bloomberg, Emirates NBD Research

Performance

GCC Bonds - Top 10 Yield To Workout Changes



GCC Bonds - Bottom 10 Yield To Workout Changes



Source: Bloomberg, Emirates NBD Research

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