بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly
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GCC Credit Weekly

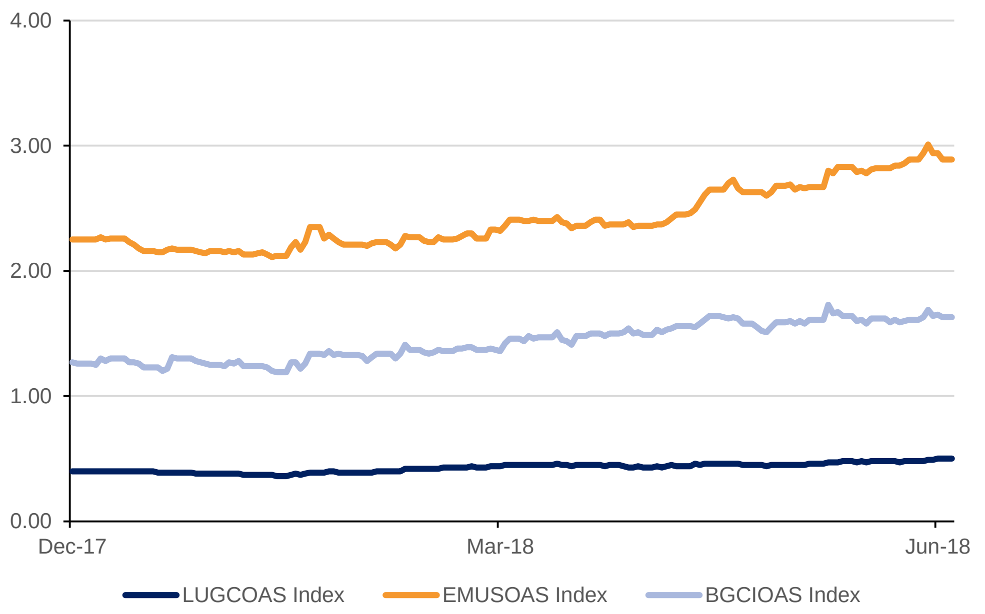
Notwithstanding the upward revision of the dot plot earlier in this month, UST yield curve continued to fall under the pressure of higher safe haven demand in the face of conflicting trade talks between the US and China. Yields on 2yr, 5yr, 10yr and 30yr USTs narrowed during the week to 2.54% (-1bp), 2.77% (-2bps), 2.90% (-2bps) and 3.00% (-1bp) respectively. Also the curve flatten further. The 2s10s spread reduced another 2bps during the week to reach 35bps now compared with over 90bps at the same time last year.

In an otherwise benchmark yield tightening environment, GCC bonds had a slight sell bias as credit spreads widened due to increasing risk aversion in the investors' community. Average option adjusted spread on Barclays GCC bond index increased 4bps to 194bps causing yield to rise 2bps to 4.66%. YTD total return on the GCC bonds this year so far is a loss of 2.67%, however, we think the worse may be behind us as the region benefits from rising oil revenues and bulk of benchmark UST yield hikes may already be priced-in.

One big news of the week was the OPEC's decision to increase supply by up to one million barrels a day mainly via increased production from producers with spare capacity, such as Saudi Arabia, that can fill any gap left by falling production from Venezuela and Iran. OPEC members pledged a return to 100% compliance with the original 2016 agreement -- ending a period of deeper-than-intended cuts. Despite the talk of higher production, oil prices were well supported with Brent Futures closing at $75.55 /b. The current price level is above the budget breakeven for KSA, UAE, Kuwait and Qatar and should assist in higher revenue getting funnelled into increased government spending in the region.

The MSCI decided to include Saudi Arabian equities in its emerging market index which is expected to stimulate inflow of foreign capital into the country. It is also likely to improve access to equity capital for the listed entities that have issued bonds in the international capital markets such as SABIC, SECO and DARALA. That said private sector bonds from KSA continued to trade at a discount to their similar rated EM peers. Dar Al Arkan, belonging to the high yield category, saw continued pressure on its bonds, albeit mostly in sync with the pressure on wider EM bonds. Yield on DARALA 19s widened 23bps to 4.72% during the week despite the bonds having less than one year to maturity and the company expected to have sufficient cash to redeem them at maturity.

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



Source: Bloomberg, Emirates NBD Research

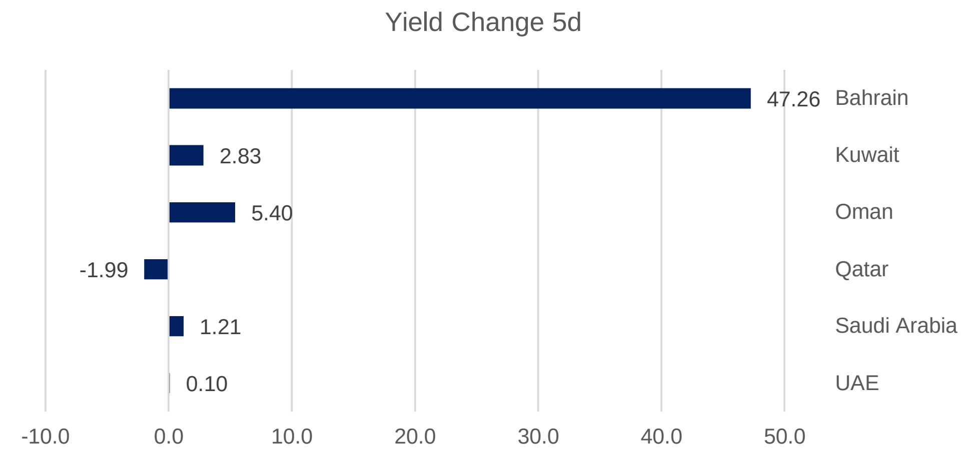
Fitch affirmed Abu Dhabi's rating at AA/stable citing expectations of budget surplus of 3.2% of GDP in 2018 driven by higher oil prices and income on investments. Abu Dhabi is likely to have sufficient capital to fund its recently announced stimulus package of $13.6 billion to be spent over the next three years, however balance sheet optimization may see it tapping international bond markets this year. Abu Dhabi curve has been one off the most stable ones in the region. Abu Dhabi 26s closed the week at yield of 3.87% (-2bps w/w).

Bahraini curve remained under pressure and is close to being inverted with continued talk about the government's stretched balance sheet and its inability to access capital from international markets at a reasonable cost. Yield on BHRAIN 20s widened 121bps to 8.00% during the week, though that on BHRAIN 25 sukuk was only higher by 28bps to 7.20%, thereby reflecting low volatility in the sukuk space compared with the conventional bonds universe.

In Qatar, Masraf Al Rayan QSC, Barwa Bank QSC and International Bank of Qatar QSC last week ended 18 months of negotiations to form the country's largest Shariah-compliant lender due to shareholder's disagreement on price. According to Moody's, the collapse of this three-way bank merger is a credit negative for the sector as a consolidation would have balanced the competitive environment in the country's fragmented banking system. That said, impact on traded bonds of Qatari banks was limited. Z-spread on INTBOQ 20s inched only marginally up to 111bps (+2bps w/w) with yield remaining stable at 3.95%.

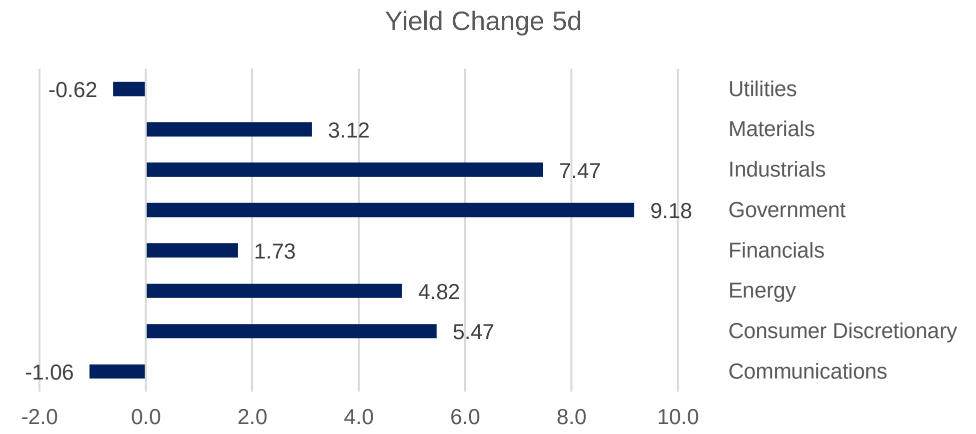
GEMS Education, the Dubai-based school operator backed by Blackstone Group LP, is planning to delay an initial public offering after the local government unexpectedly said it would freeze school fees. GEMS was also in the news for freezing teacher's remuneration in order to contain costs. Yield on GEMS perpetual bonds with a call date later this year continued to fall in response to sufficient liquidity that the group enjoys post the finalisation of $1.25 billion financing recently. GMSEDU 12 Perp closed with yield at 3.75% (-35bps w/w) and Z-spread at 127bps (-35bps w/w) amid thin trading volumes.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

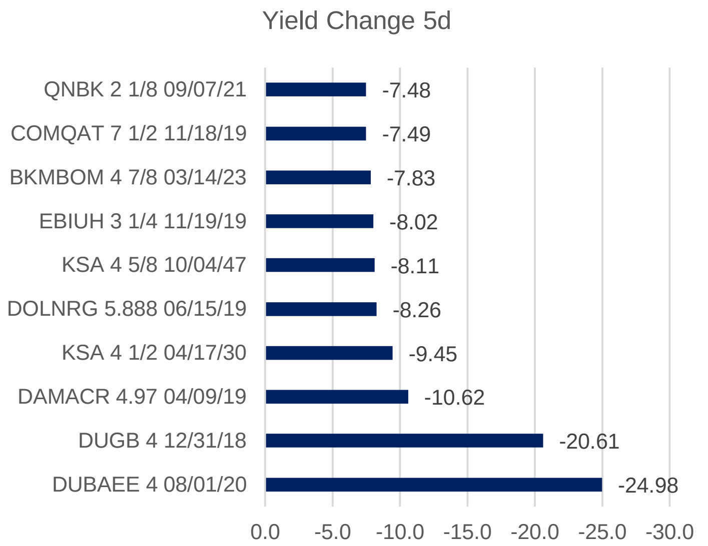
GCC Bonds – Yield To Workout Change by BICS Sector

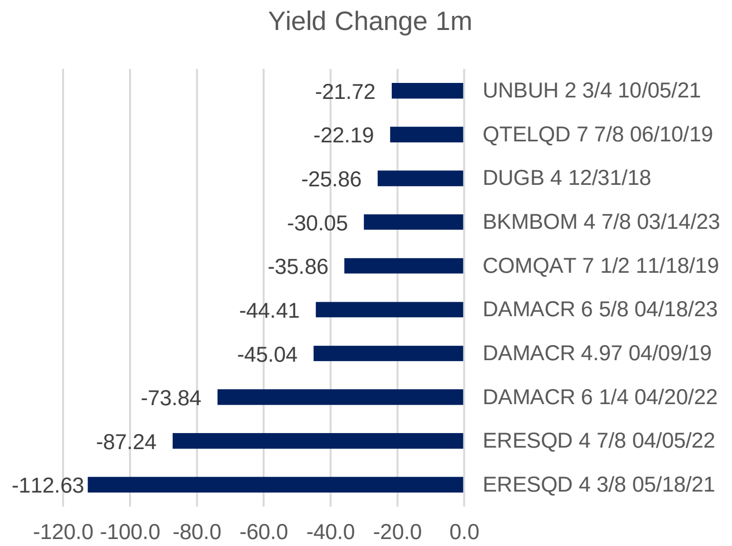


Source: Bloomberg, Emirates NBD Research

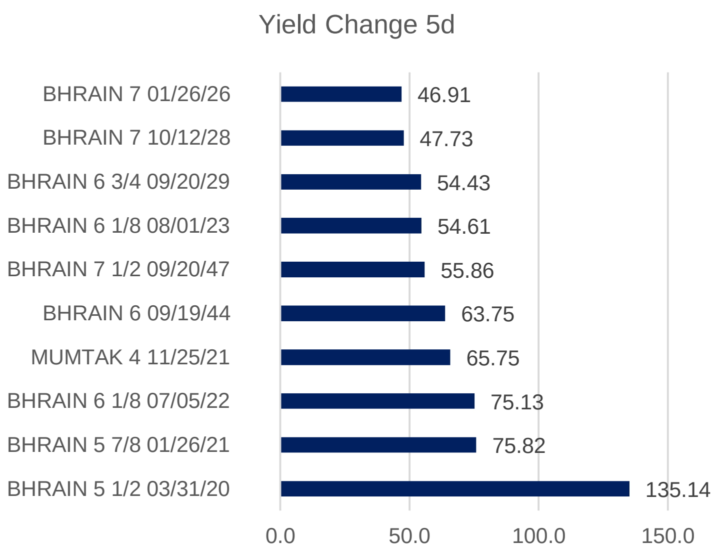
Performance

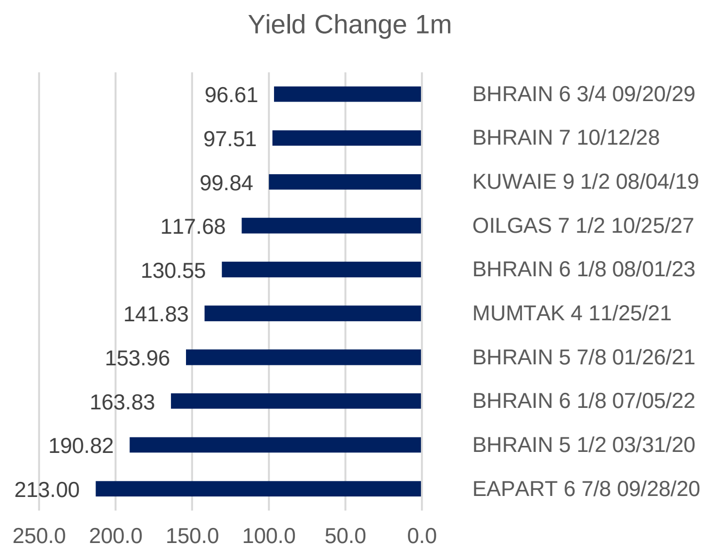
GCC Bonds - Top 10 Yield To Workout Changes





GCC Bonds - Bottom 10 Yield To Workout Changes





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