



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Monitor

US treasuries closed lower as risk appetite made a comeback last week. Stronger than expected economic data, continued expectations of a limited trade skirmish between the US and China and relative stability in emerging markets helped the move. The curve steepened with yields on the 2y UST, 5y UST and 10y UST closing at 2.80% (+3 bps w-o-w), 2.95% (+5 bps w-o-w) and 3.06% (+7 bps w-o-w) respectively.

The immediate focus of investors' will be on the Federal Reserve meeting later this week. While a 25 bps rate hike is fully priced in, the commentary surrounding the hike along with the dot plot will be critical to ascertain the length of the current hiking cycle. Any change in projections for 2019 and 2020 are likely to be seen as hawkish. It will also be interesting to see whether the Federal Reserve refers to the ongoing trade war and its impact on the US economy.

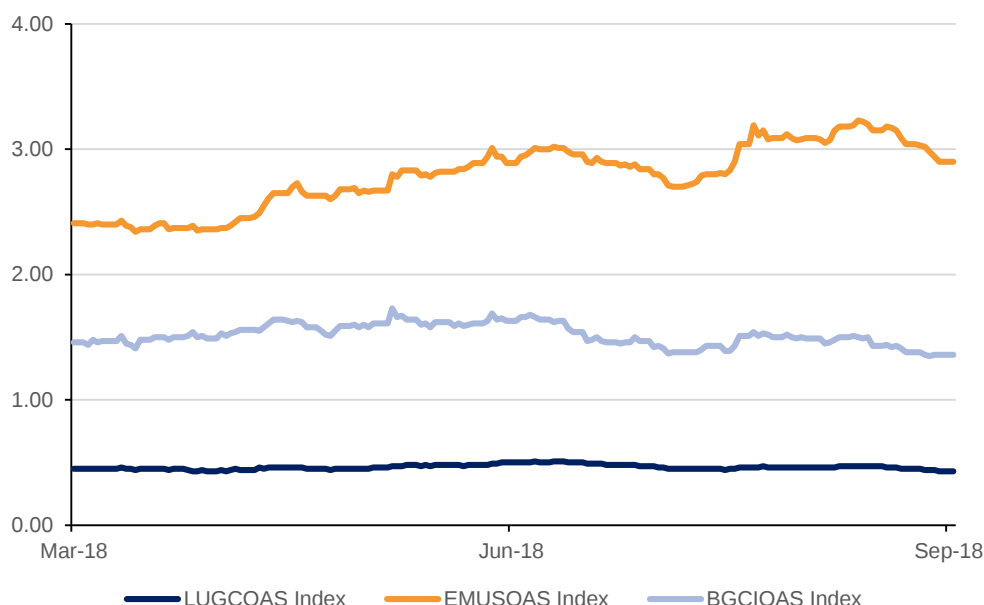
The failure of European Union and the United Kingdom to reach a broad agreement on Brexit at Salzburg conference saw European government bond pare early week losses. Overall, yields on 10y bunds closed at 0.46% (+1 bp w-o-w) and on 10y Gilts at 1.55% (+2 bps w-o-w).

A relative stability in EM universe filtered through to the fixed income market space as well. The YTW on the Bloomberg Barclays EM USD Aggregate index dropped -9 bps w-o-w to 5.88% and option adjusted spreads tightened 15 bps to 289 bps. Despite a sell-off in Indian equities, Indian government bonds held firm and yields on the 10y government paper dropped -5 bps to 8.07%.

Regional bonds drifted marginally lower amidst a pick-up in primary issuances and moves in USTs. The YTW on the Bloomberg Barclays GCC Credit and High Yield index rose 2 bps to 4.50% while credit spreads tightened 2 bps to 161 bps.

Understandably, volumes in the past week was skewed towards new issuers. However the performance has been mixed. All tranches of DP World are trading marginally lower. For example, DP World 28s ended the week at USD 99.68 relative to the issue price of USD 100. National Bank of Oman 23s closed flat while ADIB rallied sharply. ADIB perps ended the week at USD 102.29 relative to issue price of USD 100.

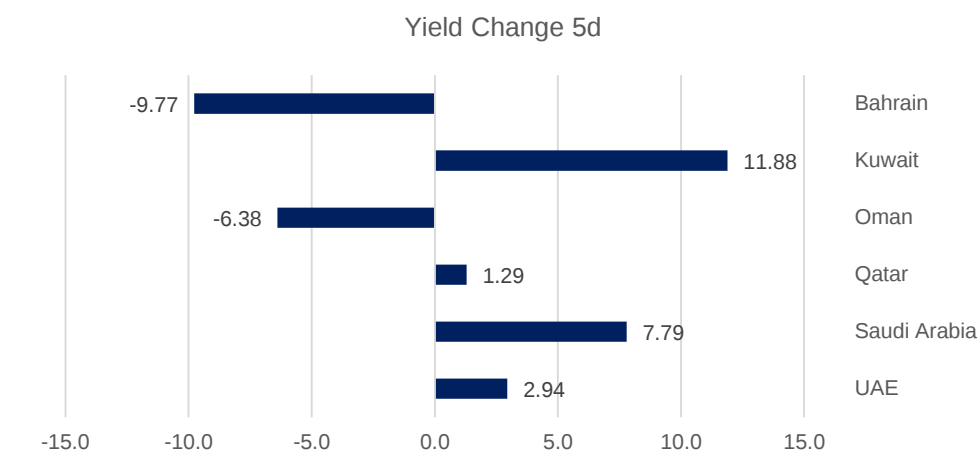
GCC vs EM IG bonds and US IG bonds – OAS history (%)



Source: Bloomberg, Emirates NBD Research

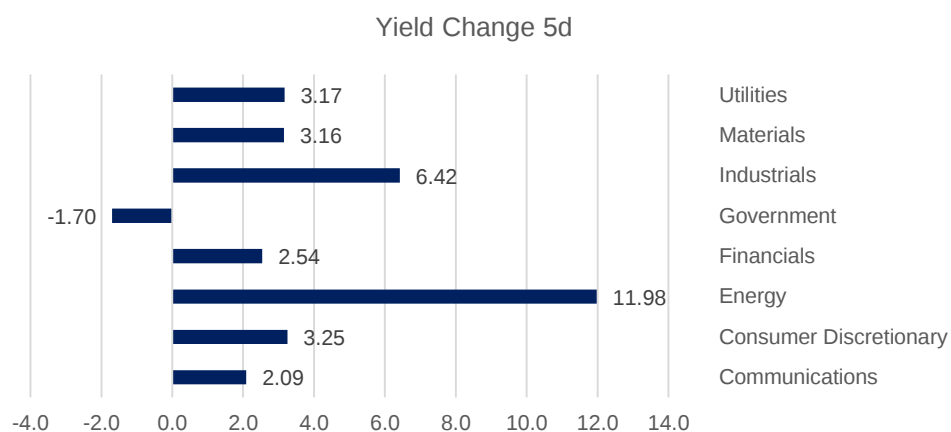
The issuance this week was dominated by corporates with DP World, Al Ahli Bank of Kuwait and Saudi Electricity Co raising money. While DP World was a multi-currency tranche, Al Ahli Bank of Kuwait was a perpetual. Following the issuances last week, the total money raised from bonds and sukuk in the GCC region is c. USD 65bn and appears on track to match the USD 85bn raised in 2017. Nakheel is said to plan a bond issue and Aldar Investments is also in the market. In Saudi Arabia, Sabic is also reported to have hired banks for a USD-denominated issuance after a five-year absence. The sudden surge in issuance can be put down to rise in UST yields and expectations of at least two hike by the Federal Reserve in the next three months.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

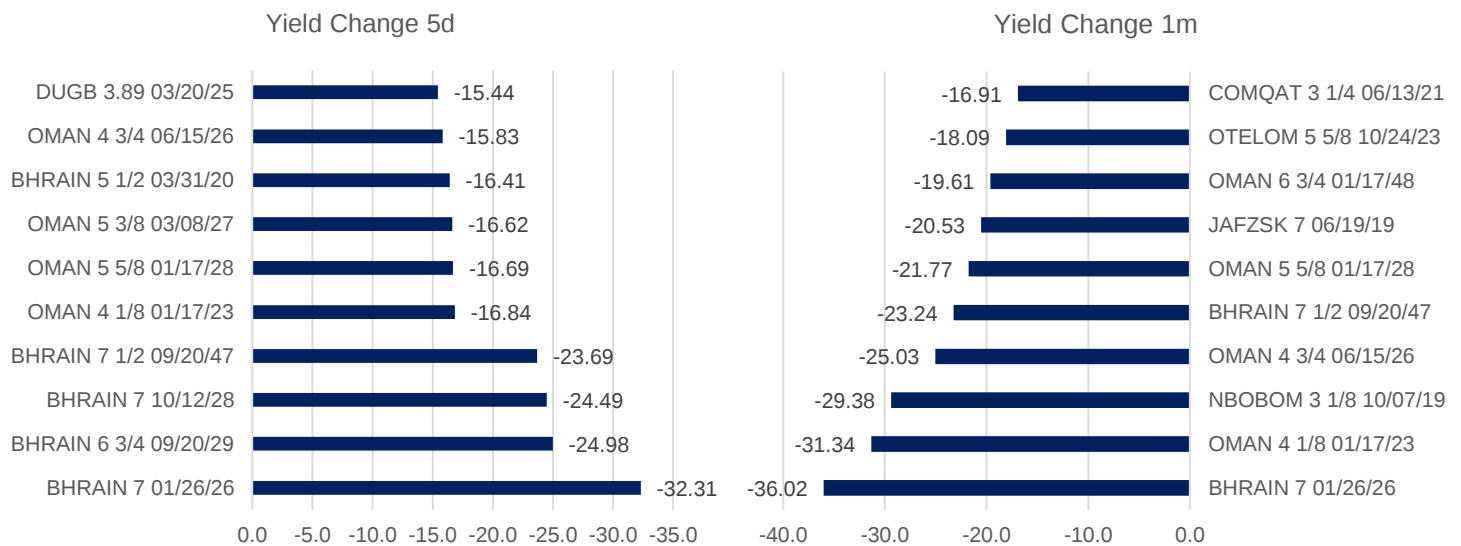
GCC Bonds – Yield To Workout Change by BICS Sector



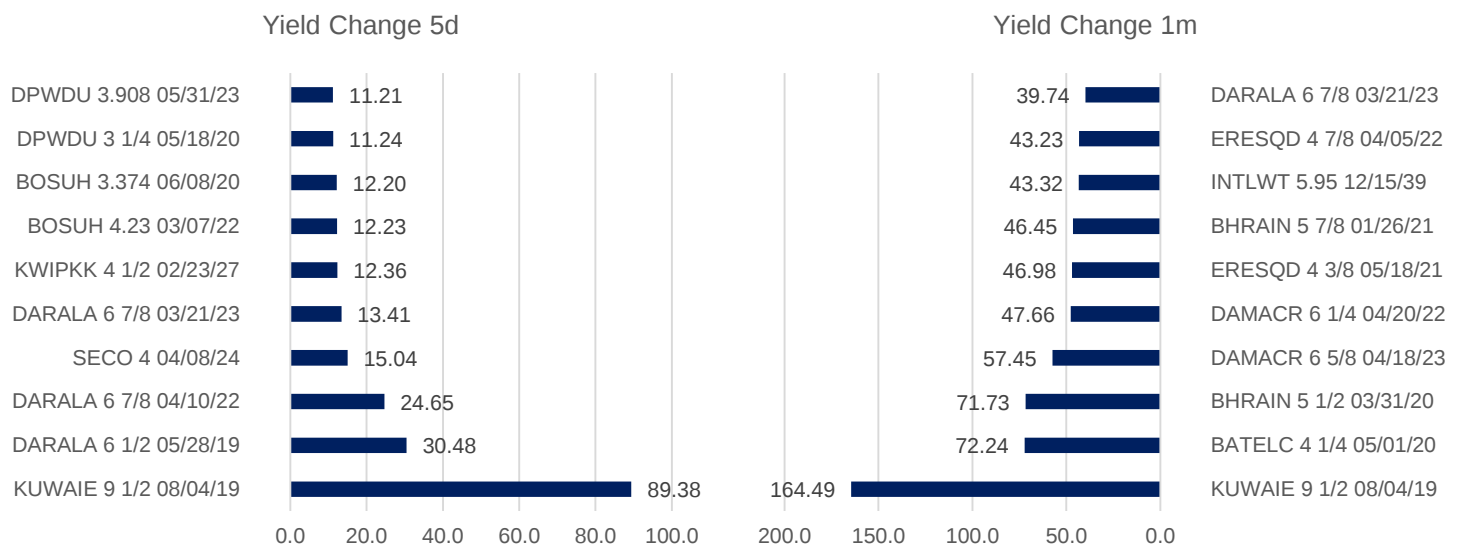
Source: Bloomberg, Emirates NBD Research

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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