



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

There was little ambiguity in Fed's statement post the FOMC meeting last week. December rate hike is firmly on the offering though rate hike projections for 2019 and 2020 were revised lower. Balance sheet unwinding will begin next month at \$10 billion per month and will only be increased very gradually. Consequently UST 2yr 10yr curve flattened with yields on 2yr and 10yr closing at 1.43% (+4bps) and 2.25% (+2bps) during the week. Across the ocean, hawkish tone of BoE officials lead to increased possibility of UK rate hikes materialising sooner than expected. Yields on 10yr Gilts rose 5bps to 1.35% during the week.

In an environment of rising benchmark yields and strengthening dollar, emerging market bonds had little protection. GCC bonds were soft across the board even though oil price maintained firmness at around \$55/b. Credit spreads on Barclays GCC bond index widened 2bps to 136bps, taking YTW to 3.32% (+5bps) during the week. The softer tone was exaggerated by thin trading volumes due to the Hijri New Year holiday in the region.

Executable bids from likes of Lufthansa and Easy Jet for the bankrupt, Air Berlin Pls' assets afforded EA Partner bonds to make it to the list of few bonds that recorded price increases during the week. EAPART 20s closed circa quarter a point up in price with YTW tightening 5bps to 11.68%.

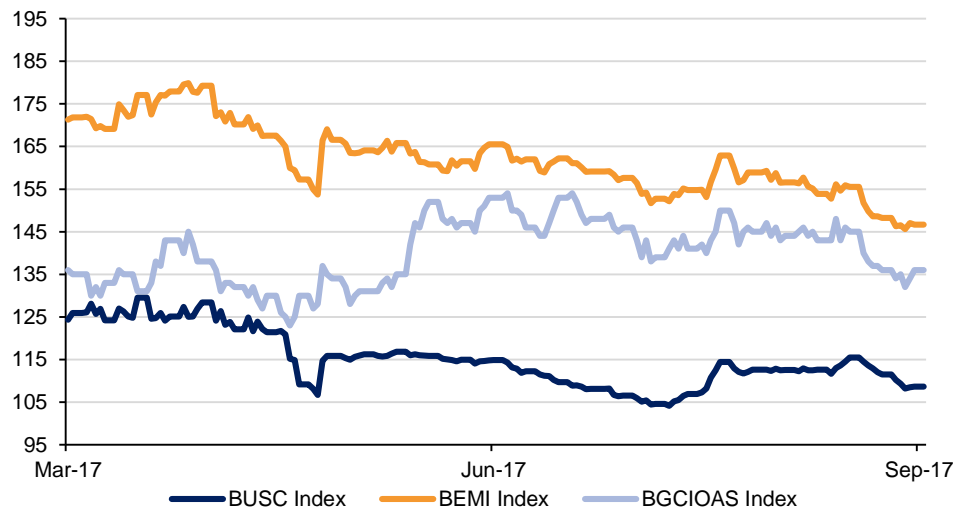
Local investors' interest in acquiring bonds of Dubai Aerospace (which were entirely placed in international markets in July this year) remain high. Price of DUBAEES 20s and 21s increased circa quarter of a point during the week to close at yield of 3.29% (-7bps) and 3.88% (-6bps) respectively. Given its ownership by the Dubai government, DUBAEES bonds still look attractive compared with EMIRAT 23s at 3.43% and DUGB 21 at 2.89%.

Emaar Property bonds have shown little reaction to the proposed partial IPO of its development business which will see the company offer 30% of its share in the development business to the public. EMAAR 26s closed unchanged at yield of 3.82%.

The change in SECO's majority ownership from KSA government to Saudi's sovereign wealth fund called Pension Investment Fund (PIF) makes little difference to company's credit profile. SECO 22s closed range-bound at yield of 2.83% (+3bps) even though Z-spread tightened 3bps to 93bps.

In Kuwait, barring Kuwait Energy which is still suffering from aftermaths of a failed IPO plan, most bonds had Z-spread tightening as decline in bond prices lacked the pace of benchmark yield widening. KWIPKK 20s closed with Z-spread tightening by 8 bps to 81bps and yield at 2.59%.

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



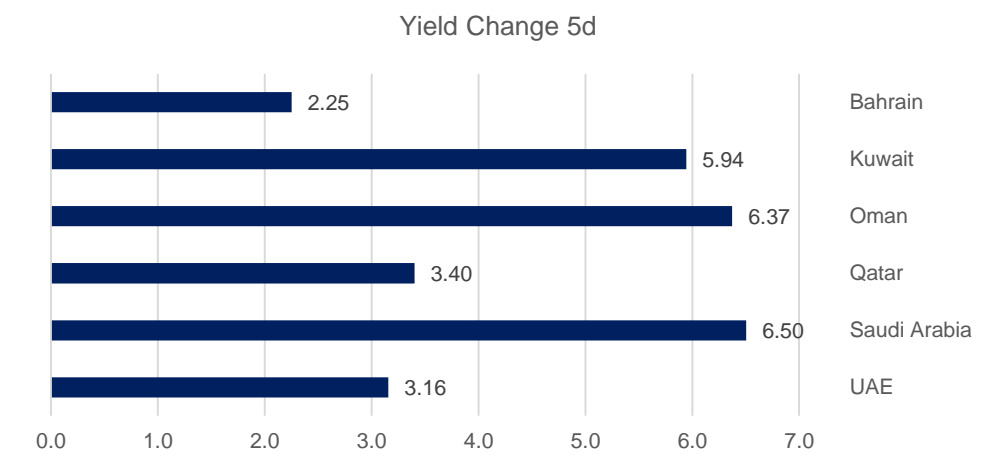
Source: Bloomberg, Emirates NBD Research

Boosted by about \$30 bn of capital spending, which is not reliant on the budget, to stimulate growth, Bahrain expects GDP growth to reach 3% this year compared with a similar level last year. Credit spreads on Bahrain curve narrowed further during the week even though bond prices closed softer.

DP World appears to be on a buying spree, though most acquisitions are small scale and unlikely to translate into credit rating concerns. It plans to buy Maritime World, the owner of Dubai Maritime City, for \$180m, and Drydocks World via capital injection of \$225m. Increase in debt to fund these acquisition will see company's leverage (net debt to EBITDA) increase from current 2.6x to 2.9x. Though higher leverage is credit negative, expectations of these acquisitions being earning accretive from the first full year will support the rating at current levels. That said, Z-spread on DPWDU 23s widened 3bps to 135bps and yield closed at 3.34% (+9bps).

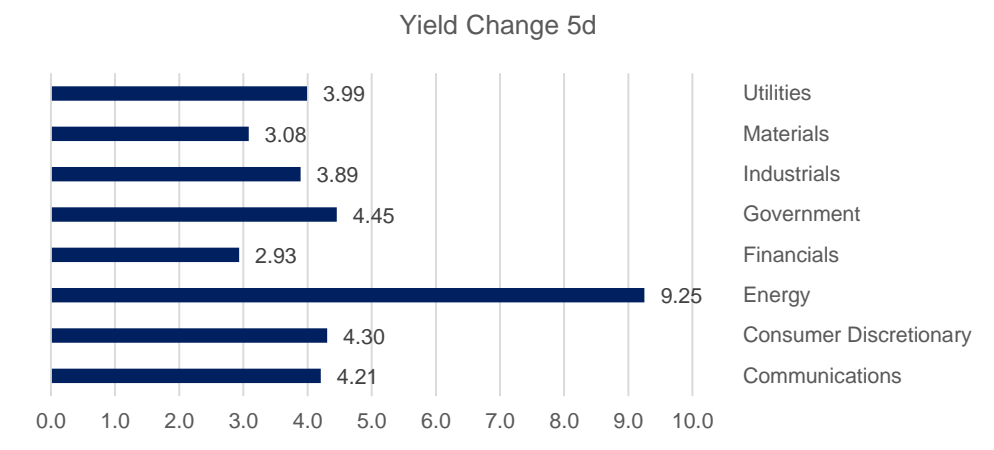
In the primary market, Saudi Arabia raised SAR 7 bn from sukuk sales in the domestic market against an order book exceeding SAR 24bn.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

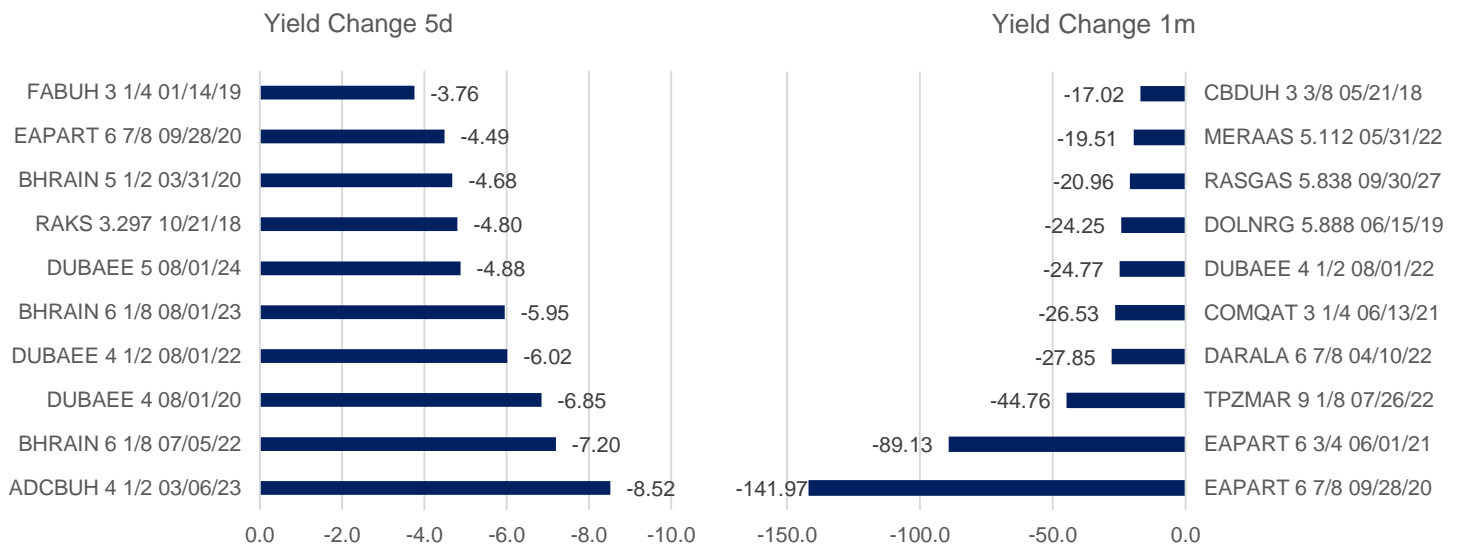
GCC Bonds – Yield To Workout Change by BICS Sector



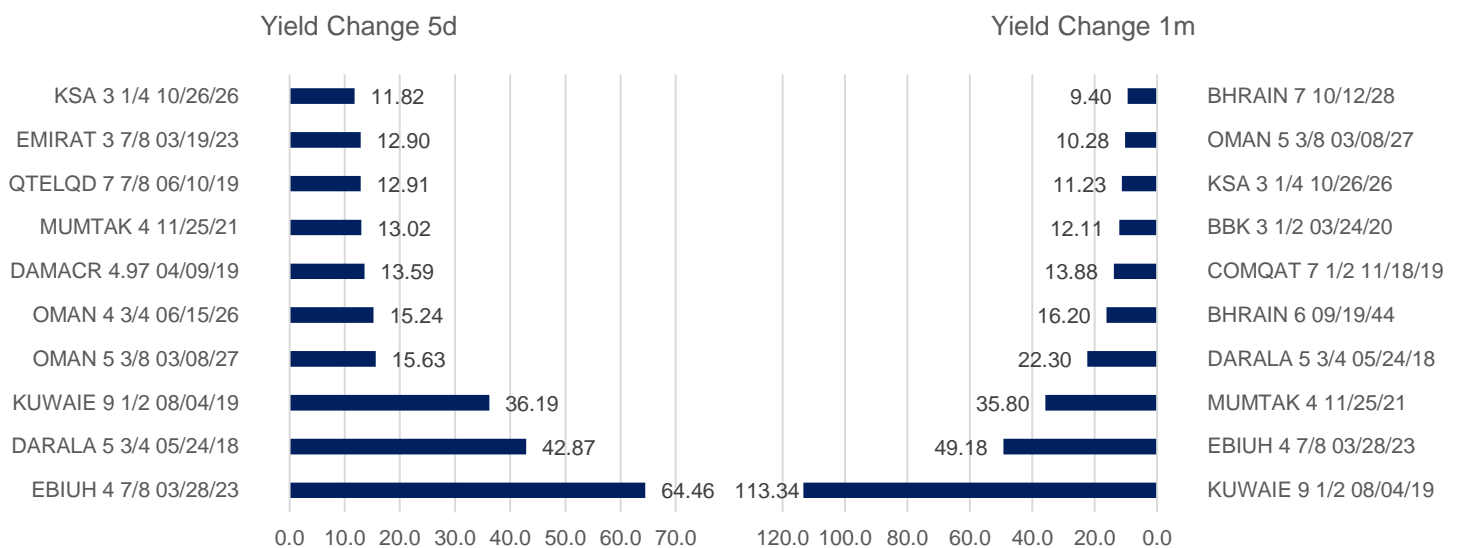
Source: Bloomberg, Emirates NBD Research

Performance

GCC Bonds - Top 10 Yield To Workout Changes



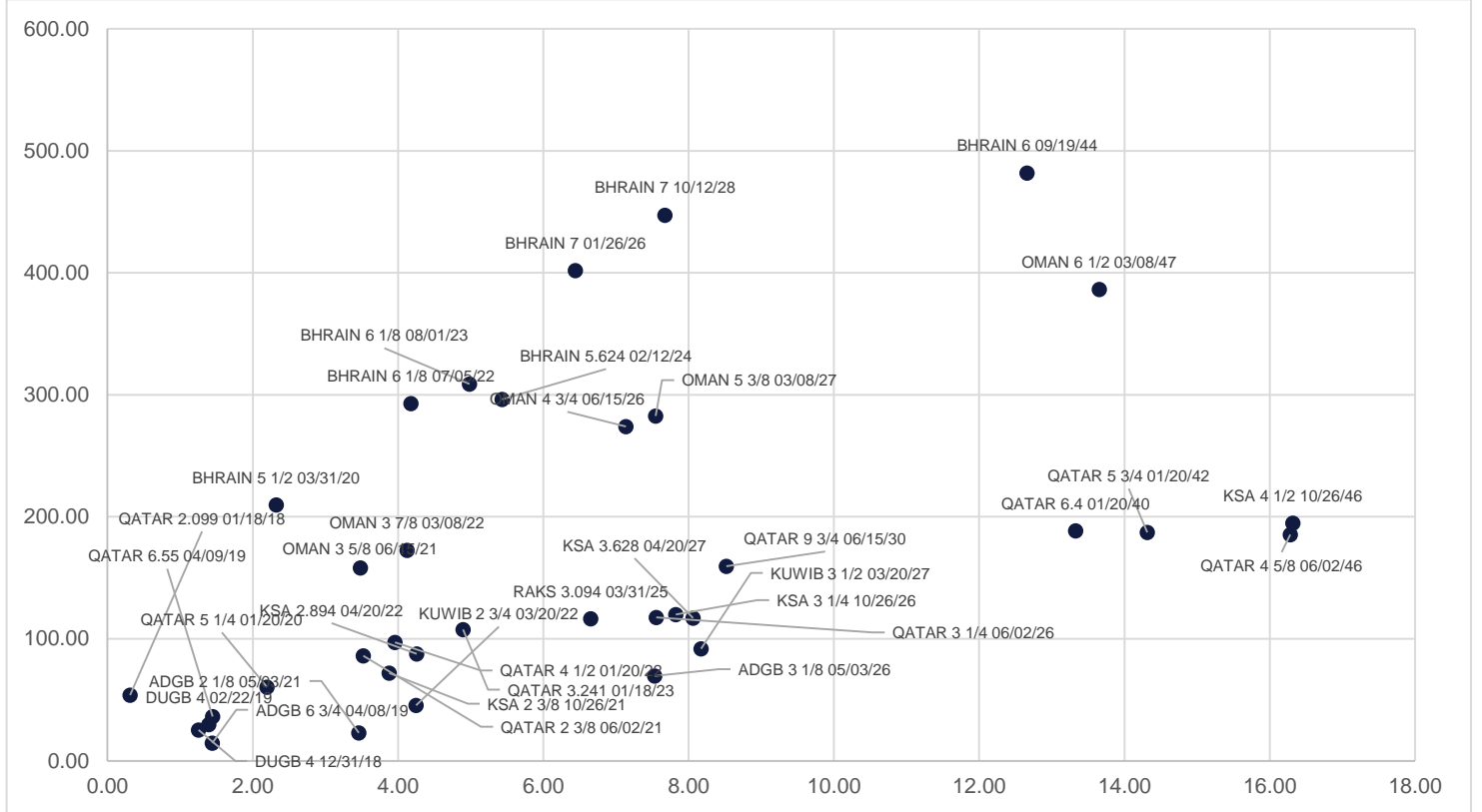
GCC Bonds - Bottom 10 Yield To Workout Changes



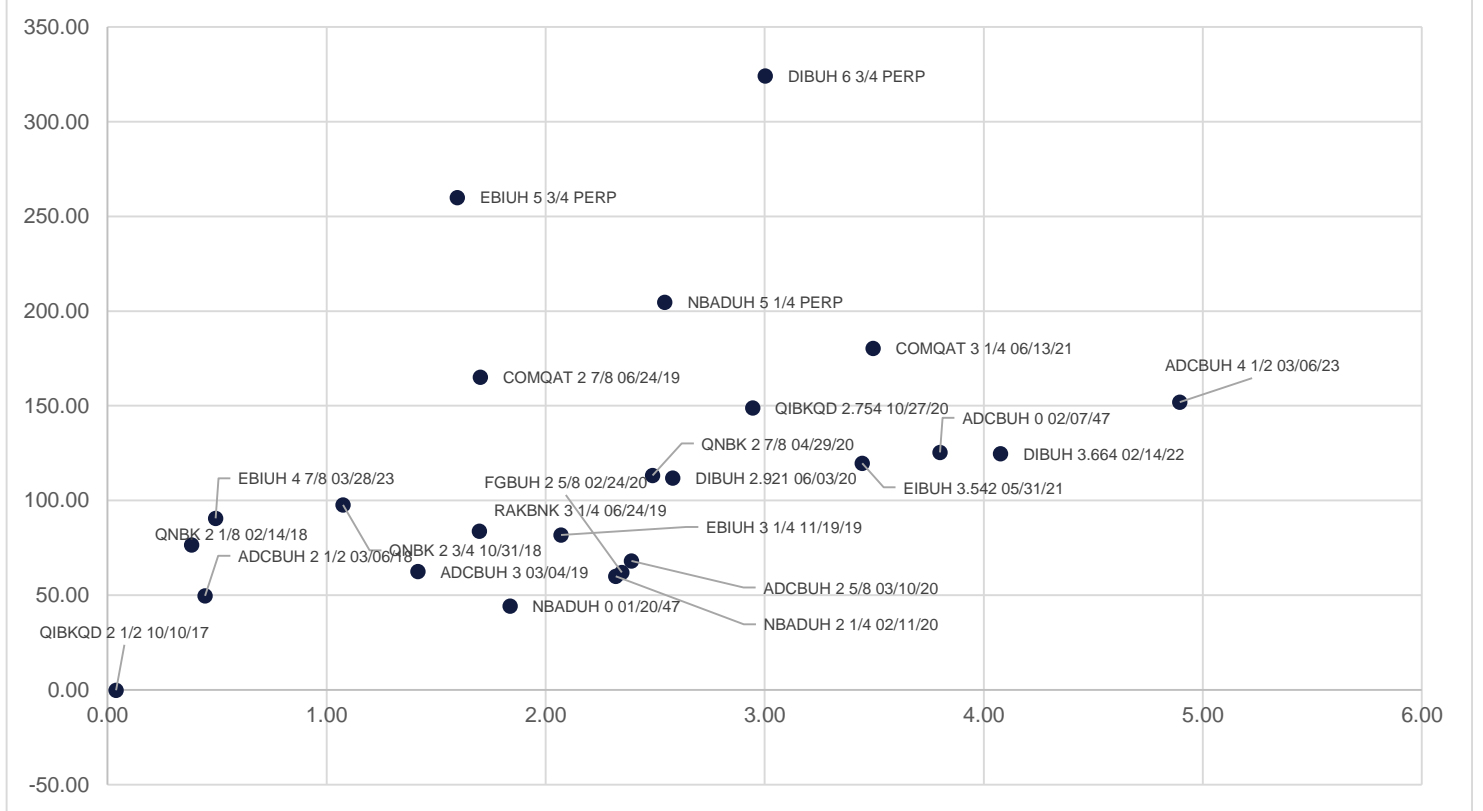
Source: Bloomberg, Emirates NBD Research

Relative Value

Sovereigns



Banks



Source: Bloomberg, Emirates NBD Research

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