



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

It was a week of two halves for US Treasuries as a perceived hawkish tilt in minutes of the last Federal Reserve meeting was offset by sharp gain in risk assets towards the end of the week. Eventually, the belly of the curve flattened with yields on the 5y USTs and 10y USTs closing lower by 1bps at 2.61% and unchanged at 2.87% respectively. Yields on the 2y USTs and 30y USTs rose 5 bps and 2 bps to 2.23% and 3.15% respectively.

Government bonds in the Eurozone closed mixed. Yields on the 10y Gilts and Bunds closed lower at 1.52% (- 6bps w-o-w) and 0.65% (-5 bps w-o-w) respectively. However, uncertainty around Italian election results reflected in 10y Italian bond yields which increased 8 bps to 2.06%.

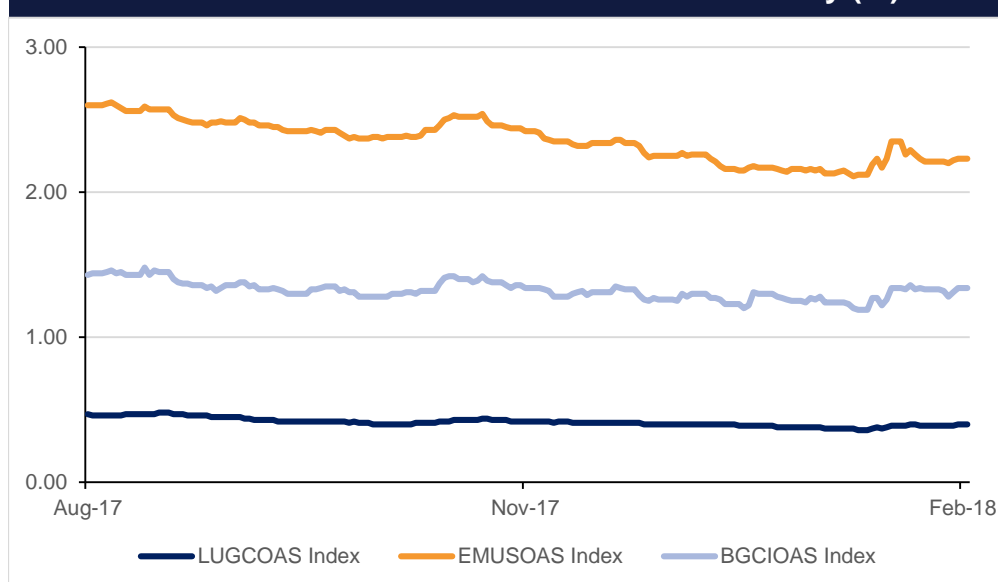
The emerging market credit space was dominated by rating action. S&P raised Russia's ratings for the first time since 2006 to BBB- from BB+ with stable outlook. Fitch affirmed the rating at BBB- with stable outlook. S&P attributed the upgrade to 'track record of prudent policy response that has allowed the Russian economy to adjust to lower commodity prices and international sanction'. For Brazil, the rating was downgraded to BB- from BB by Fitch and the outlook was revised to stable from negative. The rating agency attributed the move to persistent delay by the government in pushing through with fiscal reforms. The YTW on the Bloomberg Barclays EM Sovereign index rose 2 bps w-o-w to 5.44% and credit spreads widened by 2 bps to 266 bps.

The mixed move in benchmark yields and sharp rise in oil prices helped GCC bonds as they posted their slowest decline in five weeks. The YTW on the Bloomberg Barclays GCC Credit and High Yield index rose 1 bps w-o-w to 4.14% and credit spreads widened by 1 bp w-o-w to 155bps.

S&P expects GCC bank's net interest margins to decline slightly from 2.8% in 2017 and cost of risk rising as a result of implementation of IFRS9 rules. The rating agency also expects stable ratings for GCC banks.

Saudi Arabia completed a tap issuance under the SAR-denominated program. The country raised SAR 7.22bn to take its total 2018 issuance to SAR 13.07bn. The tap issuance was in three tranches with 5yr priced at 3.4% and 10y priced at 3.8%. The new issuance had little impact on USD-denominated bonds with KSA 28s closing marginally higher at USD 95.58 to yield 4.16%.

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

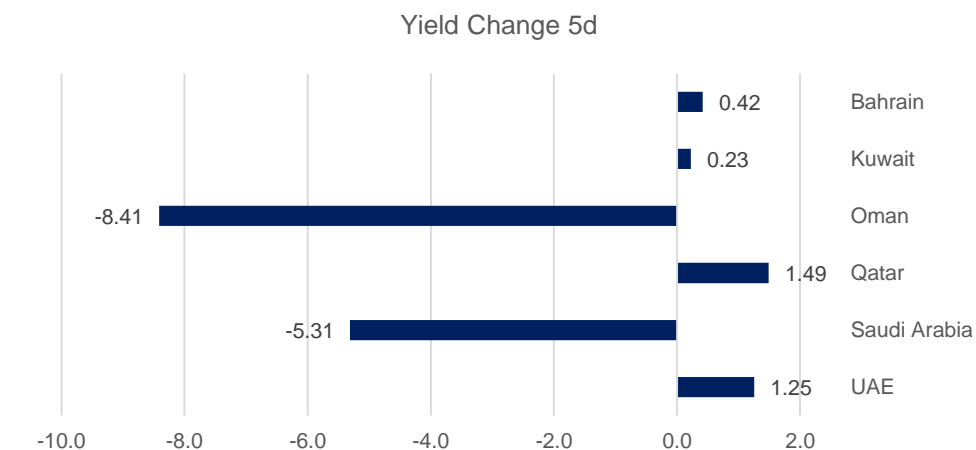


Source: Bloomberg, Emirates NBD Research

Dana Gas refuses to give up despite an adverse ruling from the UK court. The company plans to file for permission to appeal with English Appeal Court as it argues that the UK court did not give due consideration to its arguments. The company reiterated that any payment would depend on determination of UAE law issues. The outstanding sukuk continue to trade in a tight range.

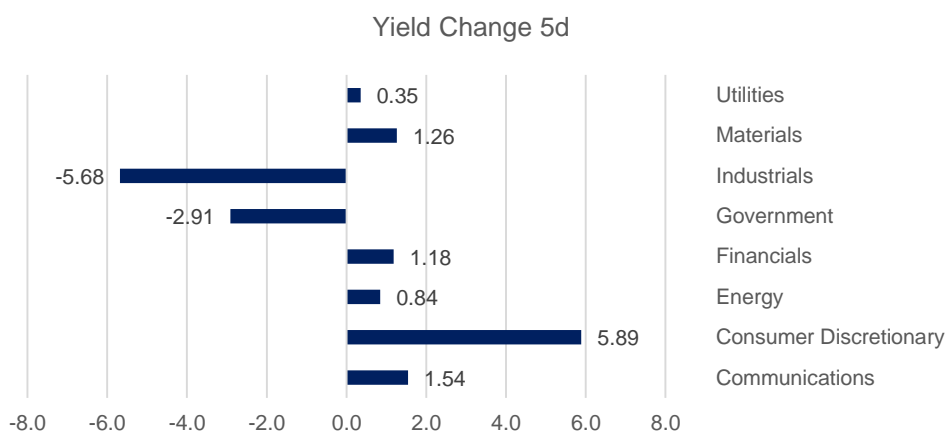
The pipeline for primary market issuances remains healthy. Bank Muscat is in talks with banks to do a benchmark sized USD issue to refinance upcoming maturity. The bank has a USD 500mn bond maturing at the end of March 2018. Omantel plans to issue a USD 2bn USD-denominated bonds to replace the abridged loan facilities obtained to acquire a controlling stake in Zain Group. Doha Bank also sought shareholder's approval to sell bonds under the USD 2bn EMTN program. The bank said that no single deal would exceed USD 1bn and would be issued in various currencies including the USD, AUD, JPY, CHF and GBP.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

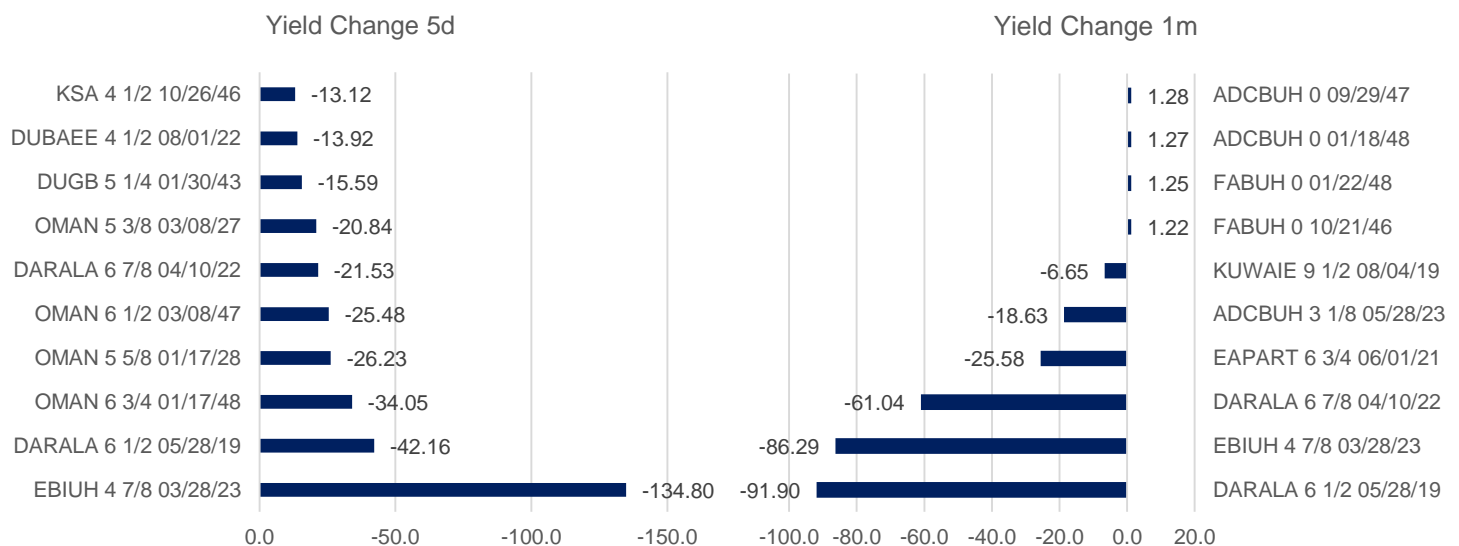
GCC Bonds – Yield To Workout Change by BICS Sector



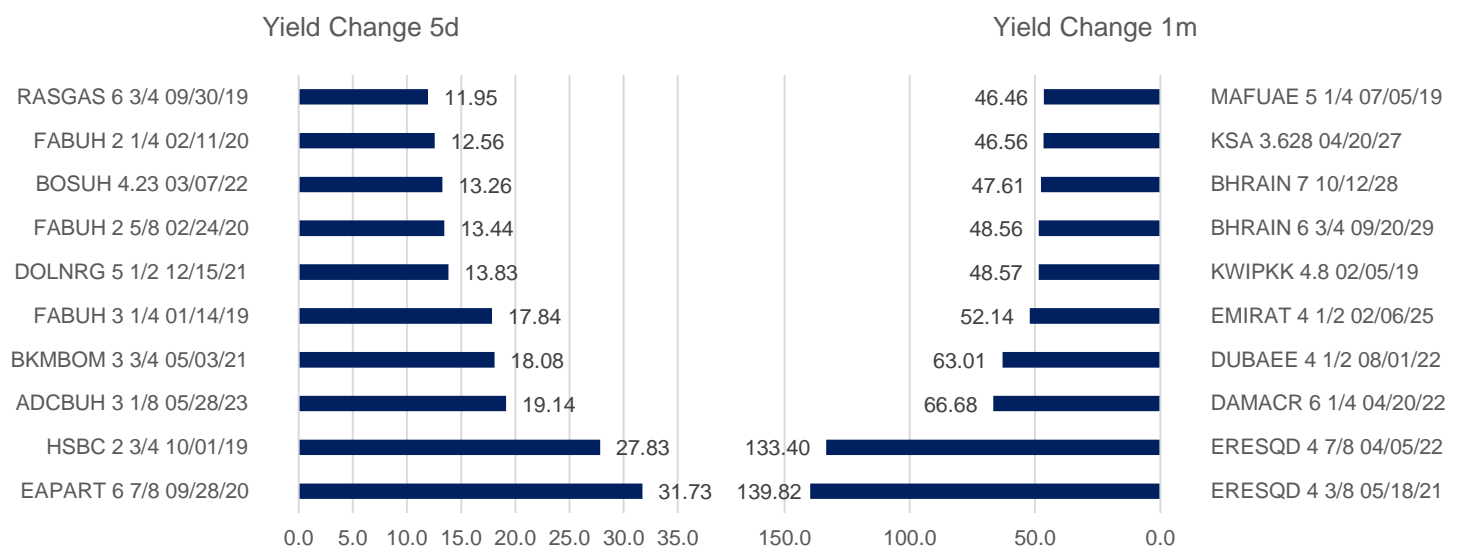
Source: Bloomberg, Emirates NBD Research

Performance

GCC Bonds - Top 10 Yield To Workout Changes



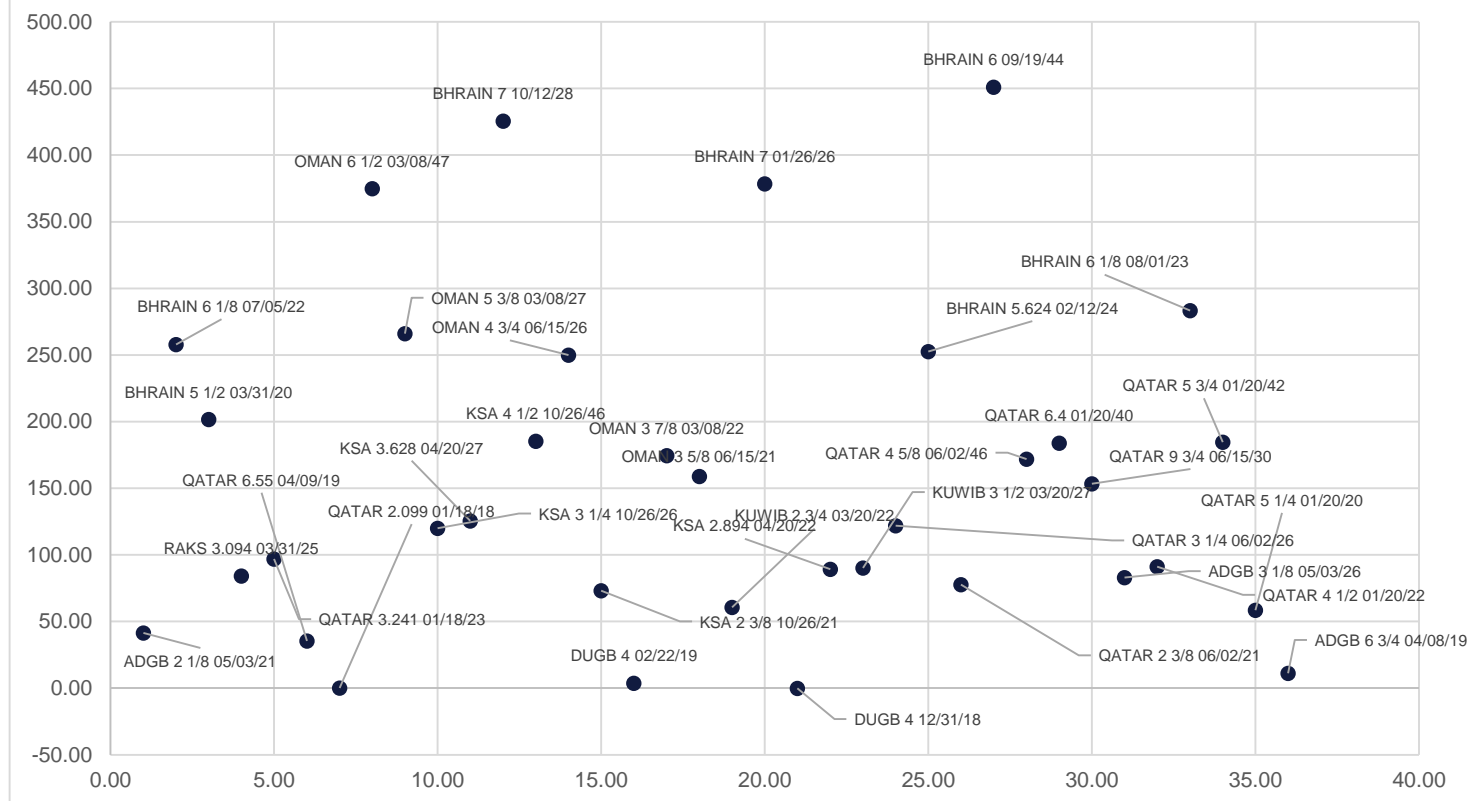
GCC Bonds - Bottom 10 Yield To Workout Changes



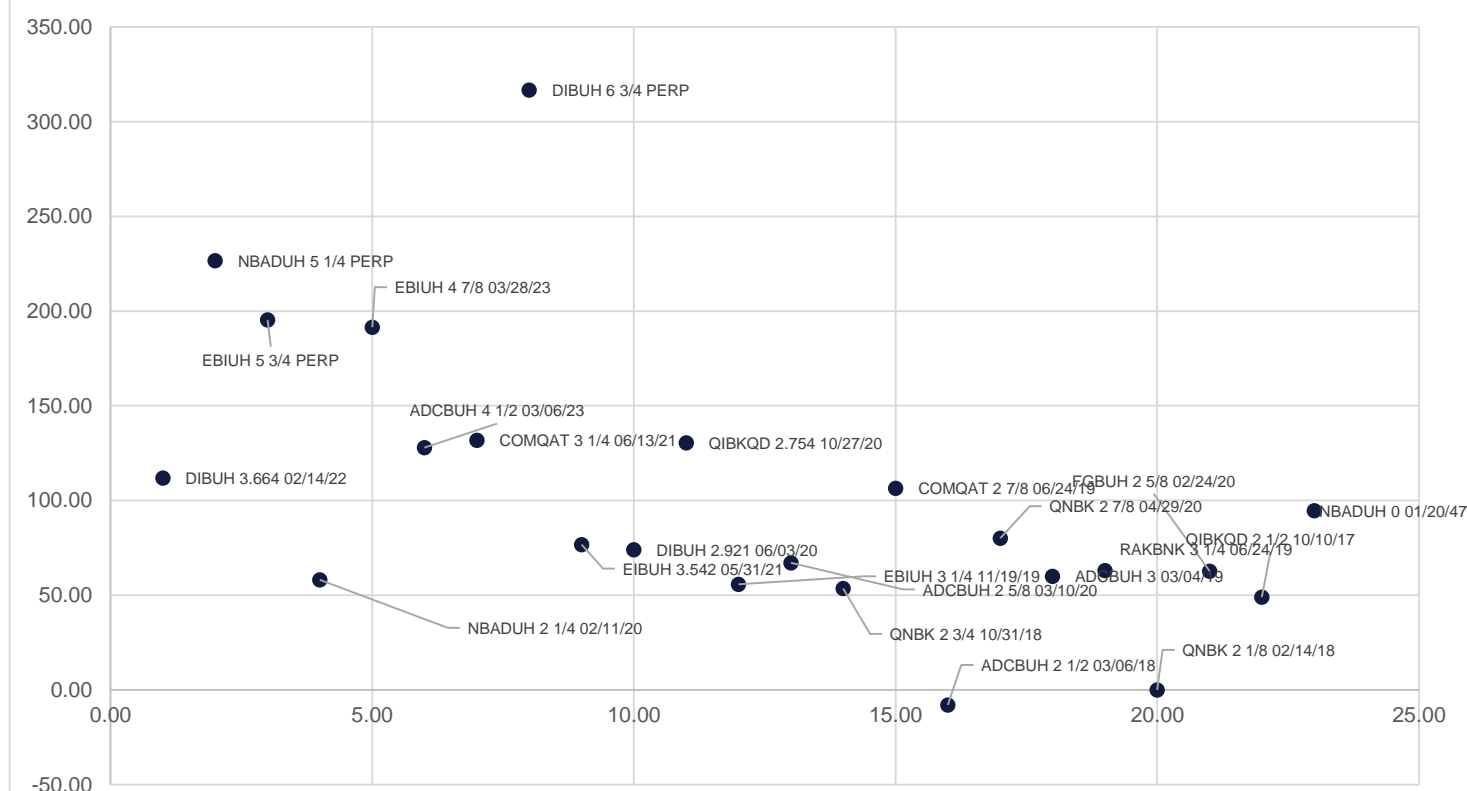
Source: Bloomberg, Emirates NBD Research

Relative Value

Sovereigns



Banks



Source: Bloomberg, Emirates NBD Research

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