



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Credit Weekly

After raising rates by 25bps at its FOMC meeting last week, the Federal Reserve stuck to its projection of only two more rate hikes this year. In the region, following the Fed's rate hike, central banks in the UAE, Kuwait, Bahrain, and Qatar also raised their policy rates by 25bps last week. The Saudi Arabian Monetary Authority (SAMA) has not yet changed its policy rates again after the surprise implementation of a 25bps rate hike in the previous week. Supporting the pegged exchange rate regimes, GCC central banks are expected to follow through with the Fed's at least another 50bps increase in rates this year.

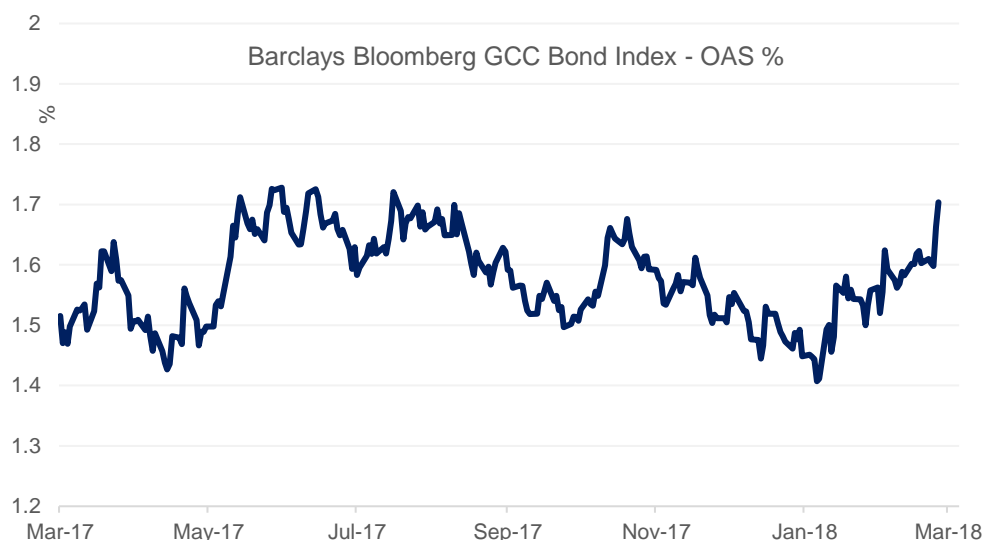
Overall messaging from the Fed was not as troubling as expected and although sentiment remains fickle, it provided some short-term support to the bond market. Yields on 2yr, 5yr, 10yr and 30yr treasuries closed the week lower at 2.25% (-5bps w/w), 2.60% (-6bps w/w), 2.81% (-4bps w/w) and 3.06% (-3bps w/w) respectively. Consequently, corporate bond portfolios did well with yields on US Aggregate Index and Euro Aggregate Index tightening marginally to 3.17% and 0.59% respectively.

Despite a 6% increase in oil prices and tightening benchmark yield curve, the GCC bond market suffered from pressures exerted by a) large new supply; b) fears of trade wars being more negative for EM markets than the DM markets, c) fears of capital outflow from EM bonds as yields rise in the DM world; and d) negative rating trend. During the week, yield on Barclays Bloomberg GCC bond index rose 8bps to 4.29% as credit spreads widened 9bps to 170bps. However, the current level still remains below the 172bps reached in June last year. Although the current level is higher than the five year average of 162bps, we do not expect material tightening in credit spreads given rating downgrades in the last two years.

The bonds that suffered the most last week were generally the ones where international participation is high. Longer dated Oman and Bahrain government bonds fell the most with OMAN 48s falling three points to \$94.65 (yield 7.18%) and BHRAIN 44s closing down by more than two and half points to \$90.83 (yield 8.34%). Oman curve continued to see sell bias as investors make adjustment for one notch downgrade of Oman's rating from Baa2 to Baa3 by Moody's. With Fitch and Moody's both having negative outlooks on their BBB- and Baa3 ratings on Oman, the risk of the sovereign rating getting into the junk category is high.

Dubai Aerospace that had enjoyed good support all through last year, fell over two points with DUBAEE 24s closing at \$94.68 and TAQAA 36s were down a point to \$120.5. KSA 47s also closed lower by appoint to \$94.53 (yield 4.98%).

GCC credit spreads continuing to widen



Source: Bloomberg, Emirates NBD Research

Emaar Properties announced plans to join hands with Aldar Properties for pursuing local and international real estate projects worth AED 30 billion. However, investors' afforded little benefit of this to Emaar bonds with EMAAR 26s closing at yield of 4.33% (+1bp w/w).

Limited new supply from the country and high sovereign rating (AA/stable) helped bonds from Kuwait to hold the ground well. Perpetual bonds with short term to next call such as AUBKWK 5.5% Perp (call date Oct 2021) and WARBAB 6.5% Perp (call date March 2022) gained in price closing with yield at 5.21% and 5.89% respectively. However, likes of Equate Petrochemical did move in tandem with the market and closed with a 9bps widening in Z-spread to 149bps.

Qatari bonds, particularly in the banking sector, benefited from positive sentiment ensuing from more than 3.6% increase in Non-resident deposits in the Qatar banking system to QAR 142.4 billion in February from QAR 137 billion a month earlier. Yield on QNBK 20s narrowed 2bps to 3.42%.

In Saudi, the recently issued Dar-Al Arkan 5year sukuk fared well in the secondary market given attractive initial pricing and the improving financial position of the company. DARALA 23s closed with yield at 7.09% (-1bp w/w).

Primary market remained active with ADCB raising \$750 million via a 5yr bond at MS+130bps, taking the year to-date new issuance from the region to over \$21.6 billion. Looking ahead, Kingdom of Bahrain has mandated banks for possible 7yr, 12yr and 30yr tranches. Also Qatar is believed to have met fixed-income investors in Asia to test their appetite for a potential bond sale in the next few weeks. Dubai Government which we expected to require capital market support, chose to obtain \$2.45 billion financing for Metro Rail Extension in the loan market.

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