بنك الإمارات دبي الوطني
Emirates NBD

GCC Credit Weekly

Shorter dated government bonds sold off during the week as economic data remained strong and tone of major central banks turned less dovish. Though no rate hike is expected at the US FOMC meeting this week, yields on 2yr UST climbed 6bps to 2.12%. 2yr Gilts and Bunds yields also closed up to 0.62% (+6bps) and -0.56% (+5bps) respectively. UST curve gave up its steepening bias of the previous week as demand for 10yr USTs remained strong amid absence of higher inflation. Yields on 10yr and 30yr USTs closed at 2.66% (+1bp) and 2.91% (unchanged) respectively.

Economic growth in the world is in uptrend, positive outlooks on ratings are outweighing the negatives and default rates are falling. Oil prices have now spent more than a quarter at the above $60/b mark. In this environment, risk appetite for credit bonds remain high. CDS levels continued their grind tighter and are now 4bps lower over the month to 45bps for US IG and 2bps to 43bps for the Euro Main. **Though cash corporate bonds suffer when benchmark yields rise, actual price of the global aggregate credit index rose over a point and half during the week as a result of tightening credit spreads.**

Regionally GCC bonds were stable with yield on Barclays GCC index range-bound at 3.87% and credit spreads tightening a bp to 145bps. CDS levels on the six GCC sovereigns tightened two to 6bps with 5yr CCS levels on Abu Dhabi, Saudi Arabia, and Qatar closing the week at 51bps (-2bps), 78bps (-6bps) and 91bps(-3bps) respectively as oil prices maintained strength.

Bonds from Saudi Arabia benefited from positive news surrounding peaceful progress on corruption purge, IMF raising growth forecast for KSA as oil prices rise, IPO of Aramco, Saudi women being recruited at Passport control office etc. Saudi Arabia's ongoing reforms to diversify its economy away from oil include privatization of state owned assets, one of which is the ACWAA Power International. **ACWA announced plans to raise $1 billion through an IPO on the local bourse by 3Q 2018.** Started in 2004, ACWA is one of the largest electricity generation companies in the Middle East, both in conventional and renewable energy. Beside owning conventional power, renewable and water desalination assets across the Middle East, it has large-scale solar projects in Morocco, Egypt and South Africa. Possibility of new cash strengthened the credit sentiment on ACWA bonds with **INTWT 39s rising more than a point and half over the week to $105.84 and yield closing at 5.29% (-17bps).**

SABIC reported 8% increase in 4Q profit to 6.65 billion riyals, however reported profit fell short of analyst's expectations as a result of increased impairments and recognition of deferred tax assets. Price reaction is unlikely given the short term to maturity of SABIC 18s that closed the week at yield of 2.30% (unchanged).

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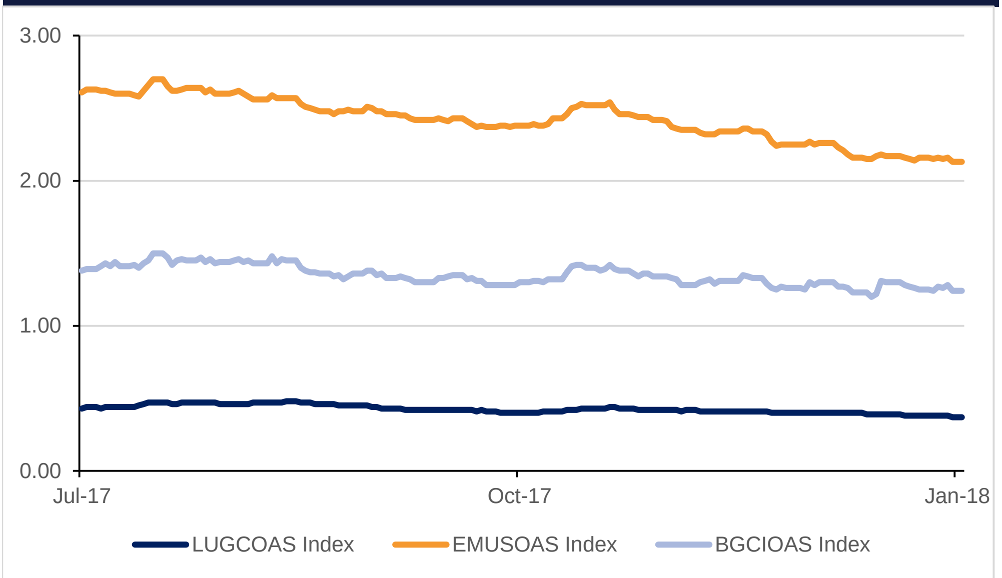
GCC vs EM IG bonds and US IG bonds – OAS history (%)



Source: Bloomberg, Emirates NBD Research

DAMAC is believed to be in talks with Montenegro government to invest in tourist sites on the Adriatic coast. One of the constraints that DAMAC's credit profile has is its concentrated exposure to the Dubai luxury property segment. International diversification may assist in combating this somewhat, as and when it happens. In the interim, DAMAC bonds had slight positive sentiment with price of DAMAC 19s and DAMAC 22s closing marginally up and yield stable at 4.16% and 5.40% respectively.

Dubai Islamic Bank's Board approved raising ceiling of non-convertible tier 1 capital instruments by $1b to $3b and also approved issuing senior or subordinated sukuk or other similar instruments of up to $5b. DIB bonds generally traded weaker during the week mainly because of their shorter tenure. DIB 20s and DIB 22s closed at yield of 3.09% (+2bps) and 3.42% (+3bps) respectively.

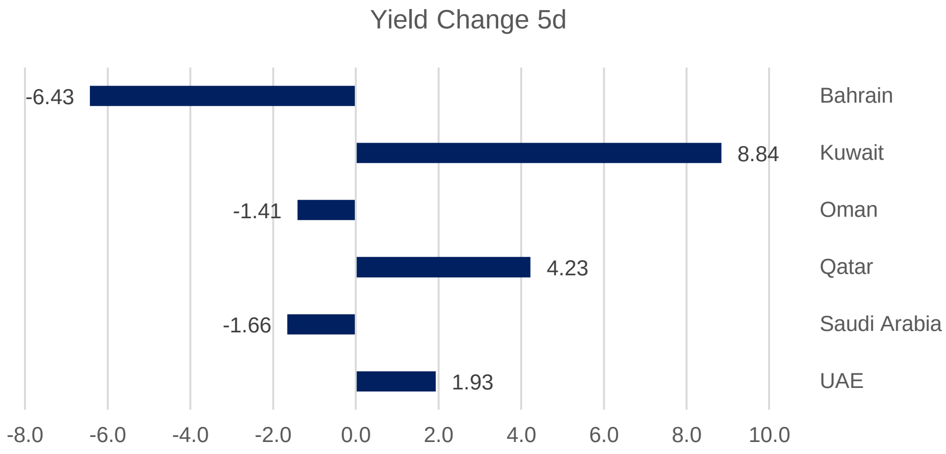
There is no real progress on the ongoing discussions between Dana Gas and its sukuk holders. Dana Gas had earlier offered to buy back $200 million at 15% discount and rolling over the remainder $500 million into new securities with a profit rate of 4% which sukuk holders had rejected.

News about Oman government considering raising funds via a $2 billion loan from local and international banks did little to affect its bond prices which closed mainly in sync with the benchmark yields. Longer dated OMAN 47s and OMAN 48s rose in price while shorter dated fell somewhat. **Similarly, talks of Saudi Arabia exploring options to increase and extend its $10 billion syndicated loan, originally taken in 2016, had minimal direct impact on existing bonds**. Longer dated KSA 46s and 47s rose in price with yield declining a bp each to close at 4.62% and 4.66% respectively while shorter dated KSA 21s and 22s closed lower with yield at 2.59% (+7bps) and 2.89% (+4bps) respectively, much in sync with the yield increase on the UST curve.

Primary market had minimal activity in the USD denominated space. Outside of the hard currency, QNB raised A$700 million in Kangaroo bonds and Emirates NBD raised $250 million in Formosa bonds. Looking ahead the pipeline includes:

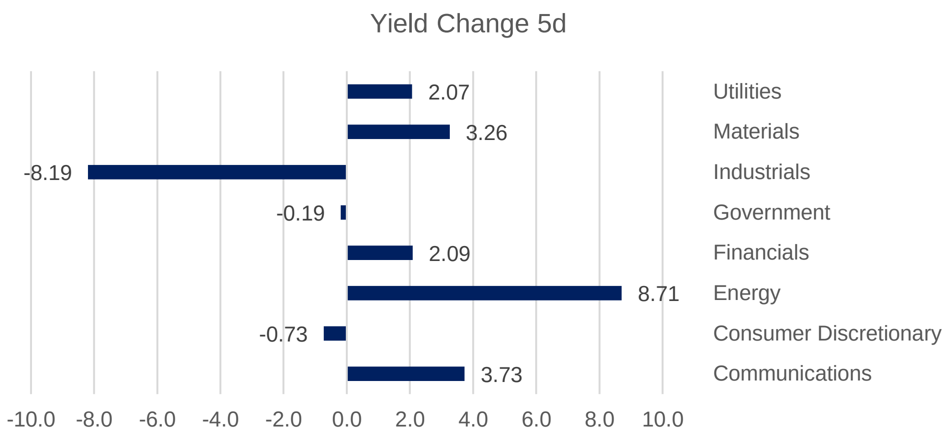
- Dubai Islamic Bank is on the road this week, possibly for a USD sukuk.
- Qatar plans $9 billion bond sale in 1Q2018
- Emirates Airlines will likely raise $1 billion via USD sukuk.
- KSA's Riyadh Bank has established bond program.
- Saudi Arabia will need to raise capital to fund budget deficit.
- Saudi Arabian Mining company, MAADEN plans to issue sukuk of upto 4 billion riyals in the 1Q 2018.

GCC Bonds – Yield To Workout Change by Country



Source: Bloomberg, Emirates NBD Research

GCC Bonds – Yield To Workout Change by BICS Sector



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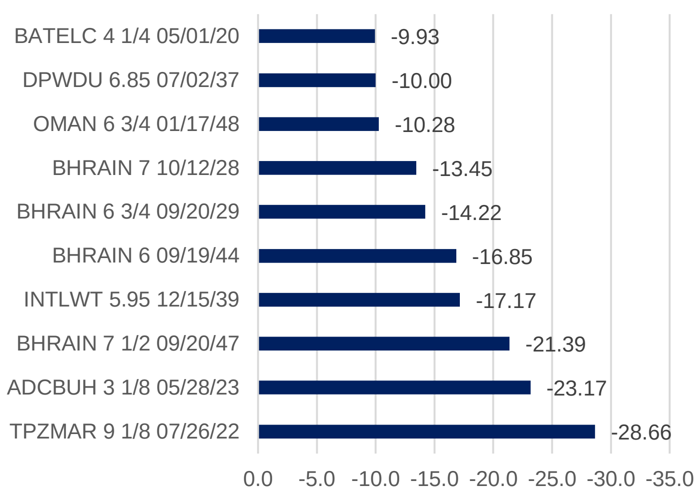
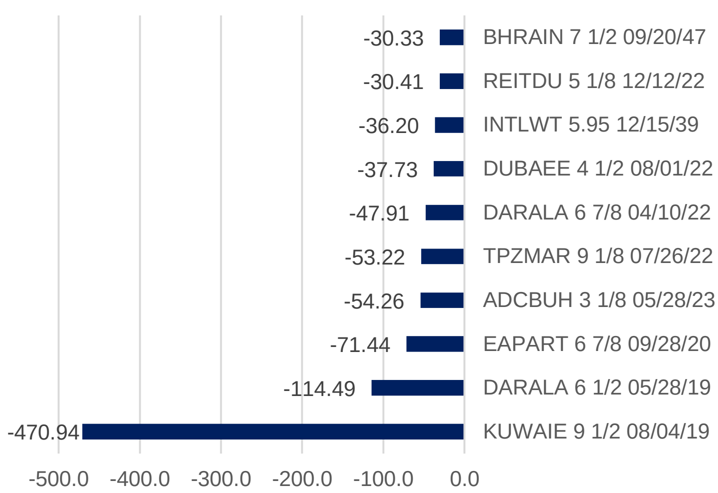
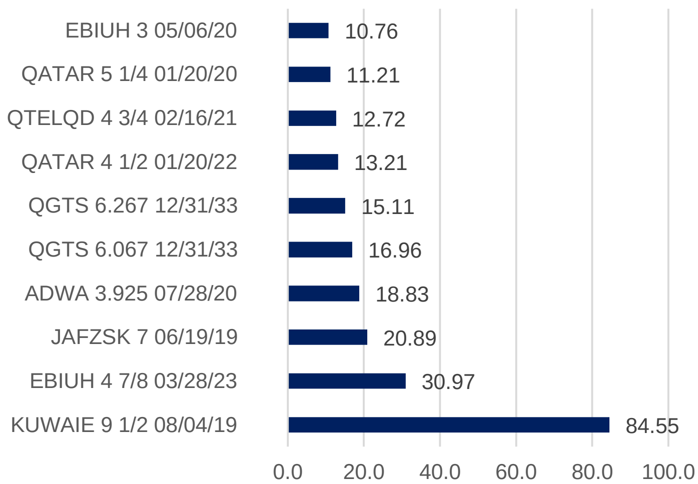
Performance

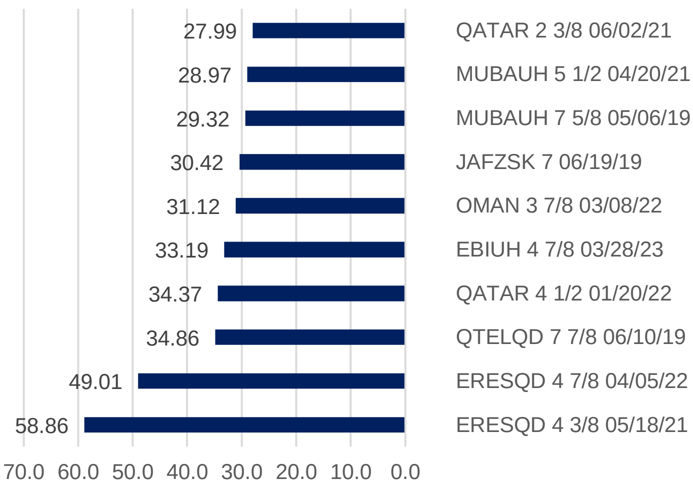
GCC Bonds - Top 10 Yield To Workout Changes





GCC Bonds - Bottom 10 Yield To Workout Changes

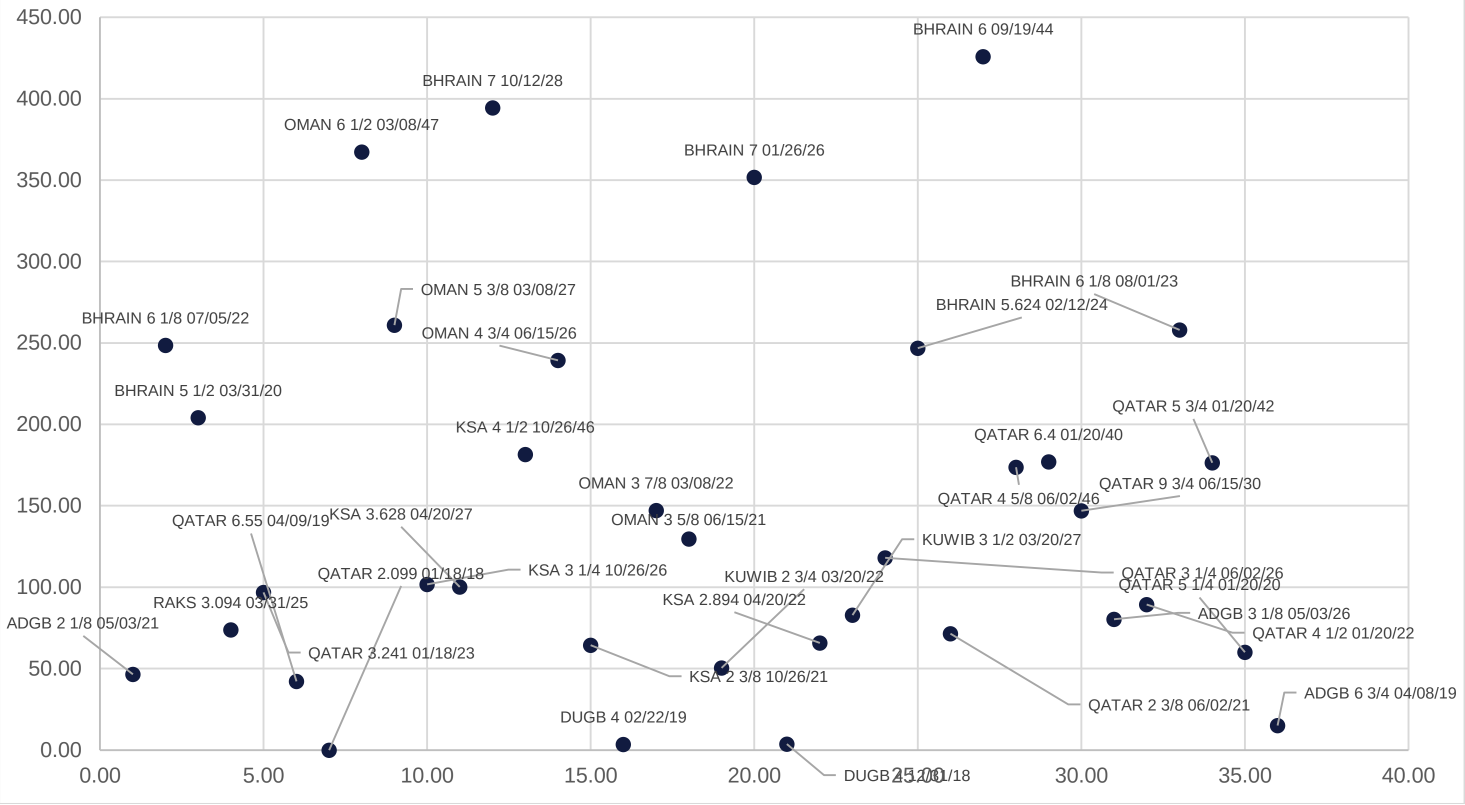




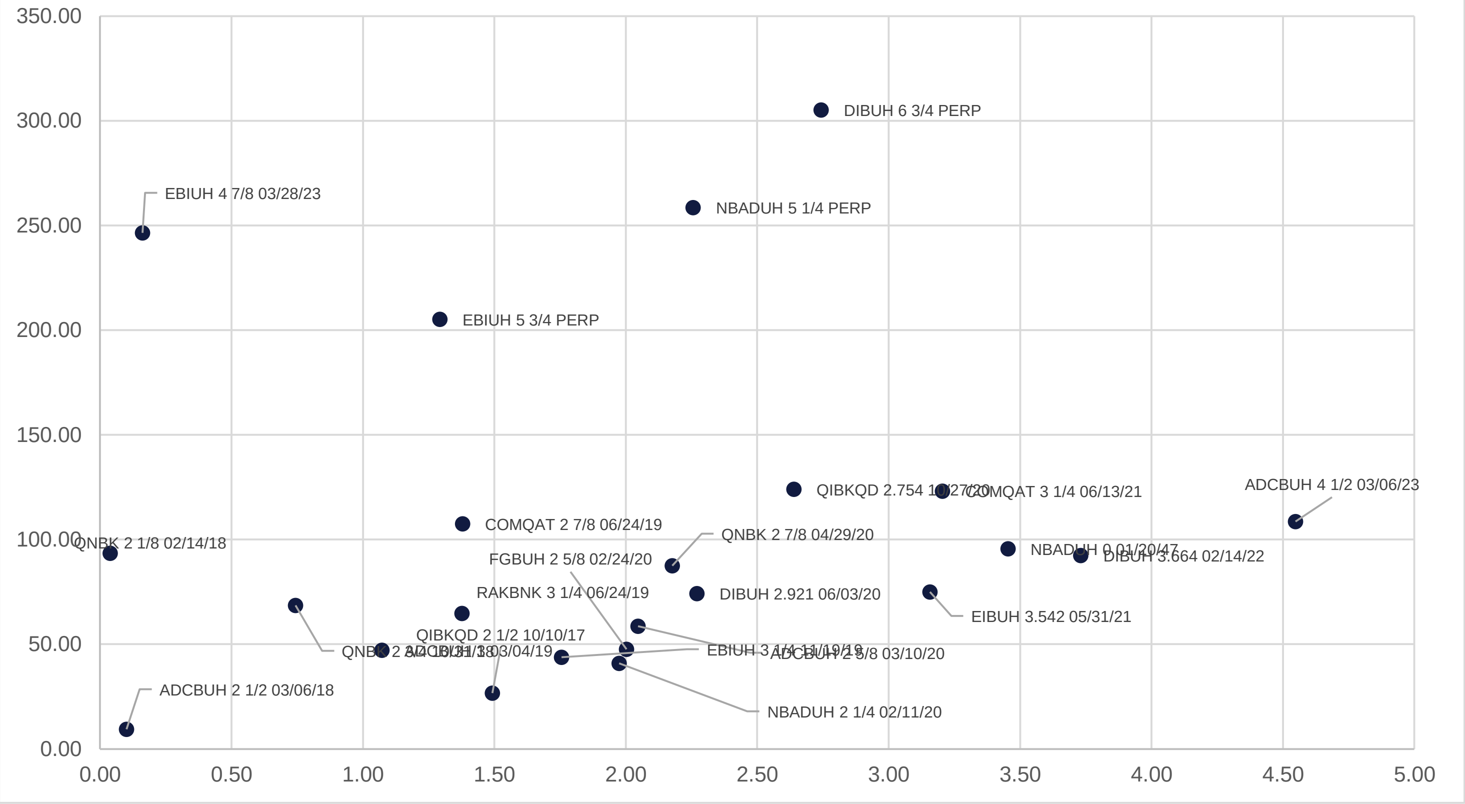
Source: Bloomberg, Emirates NBD Research

Relative Value

Sovereigns



Banks



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