



بنك الإمارات دبي الوطني
Emirates NBD

Credit Weekly

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GCC Weekly Chart Pack

Bond market registered little impact of President-elect Trump's press conference last week which lacked any material comment on economy or his fiscal stimulus plan. However weaker than expected retail sales data arrested the trend of rising treasury yields. UST curve shifted downward across the tenures with 2yr, 10yr and 30yr yields closing down by 2bps each to 1.19%, 2.40% and 2.98% respectively. Sovereign bonds across UK and Japan followed suite, however Bund yields rose as economic recovery in the Eurozone gains stronger footing, thereby increasing the prospect of QE tapering. 10yr Bund yields closed the week 4bps higher at 0.33%.

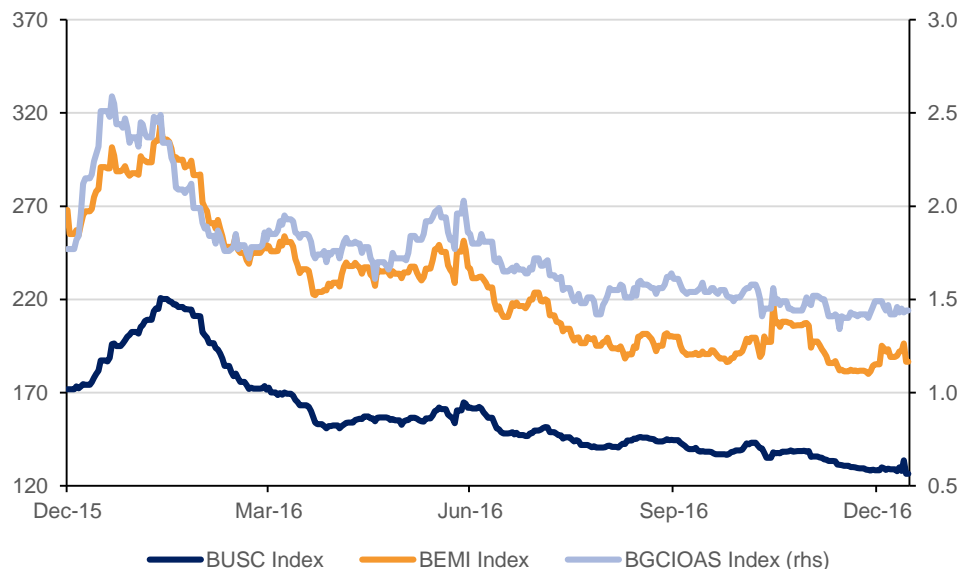
Against this backdrop, GCC bonds had a range-bound performance, balancing the benefits of tightening benchmark yields and favourable technical demand supply dynamics against the weakening sentiment on rally in oil prices. Credit spreads in the region as whole had slight widening bias except for highly rated liquid bonds from the UAE. Option adjusted credit spreads on BBG Barclays GCC index closed the week 2bps wider at 144bps though those on BUAEL index were a bp tighter at 147bps. We note that these spreads were at 251bps and 235bps respectively at this time last year.

Trump election victory related exuberance is now being tested for its execution and deliverability as well its overall impact on inflation. This in turn has seen a circa 20bp decline in longer dated yields with 30yr UST yields now at 2.98% vs 3.18% in mid-December. Following the UST move, longer dated GCC bonds gained materially with likes of DUGB 43s, QTEL43s, Qatar 46s, SECO 44s, KSA 46, DP world 37s etc all rising by more than a point or two last week. In contrast shorter dated bonds remained subdued. Perpetual securities also were marginally softer as most of them have call dates within the next 2-5 years.

Reports surfaced about Oman needing liquidity support and seeking placement of deposits with Oman Central Bank from its neighbours which Omani regulators later denied. However Oman credits have lagged the market somewhat in the recent past. OMAN 26s closed with Z-spread at 292bps (+4bps on the week).

S&P's report about sovereign rating trends in the region provided little new guidance. Sovereign bonds in the GCC continue to be well bid with sector as a whole performing in line with the universe as narrowing in longer dated Qatar and KSA sovereign spreads was counter balanced by widening spreads on Bahrain curve. Budget announcements from four of the six GCC nations reflect deficits in 2017 to be substantially lower than last year. In 2017, budget deficits for all six GCC sovereigns put together is expected to be in the range of \$80 – 100 billion which will continue to see high new supply of sovereign bonds this year.

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



Source: Bloomberg, Emirates NBD Research

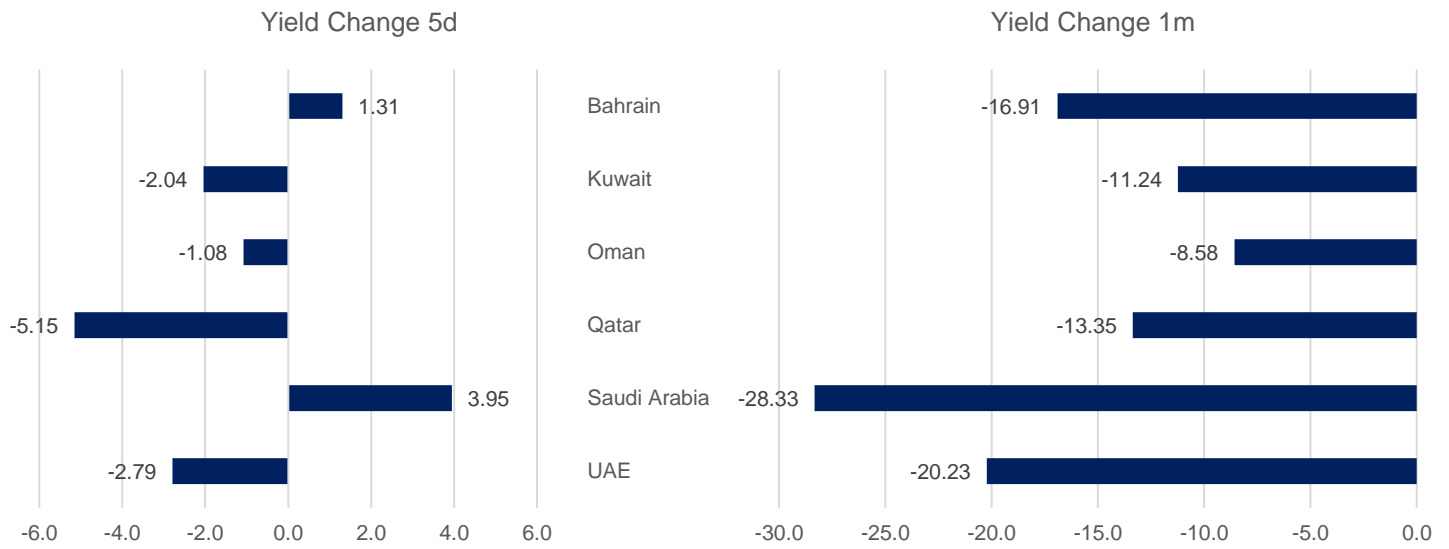
Primary market in the region is yet to pick up pace. India's Adani Ports priced a \$500 million 5yr bond at T+215bps last week. Over two times oversubscription and tightening of circa 20bps in the final price over the initial guidance validates the continued demand for emerging market bonds, albeit at a more subdued level than what we witnessed last year. Current week has ICD, DIB and GIB on the road seeking to do benchmark deals which are likely to be met with good demand as investors collect \$4.1 billion in redemptions this month. The slow start in the primary market can partly be attributed to the continued competition from the bank market. Last week saw several potential issuers such as QNB, Etihad Airways, FlyDubai etc tapping banks for bilateral/syndicated loans.

Index

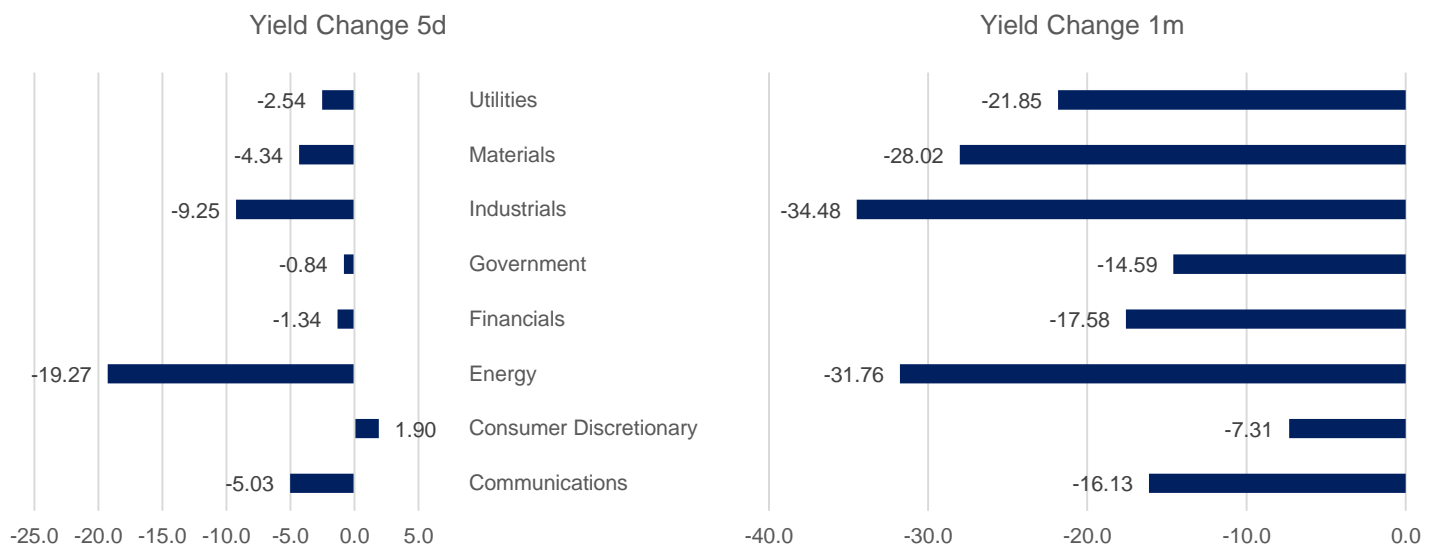
GCC bonds underperformed the wider emerging market bonds as investors got off to a slow start amid building pipeline of new issues. The underperformance is in line with the broad trend that emerging market bonds tends to outperform GCC bonds when oil prices decline. The option adjusted spreads on the BUAEUL index (liquid UAE bonds) tightened a bp to 147 bps and the yield dropped to 3.12% from 3.1%. In comparison, the OAS on the Bloomberg EM IG index tightened 2 bps to 187 bps while the yield on the same moved to 3.96% from 3.99%.

Returns

GCC Bonds – Yield To Workout Change by Country



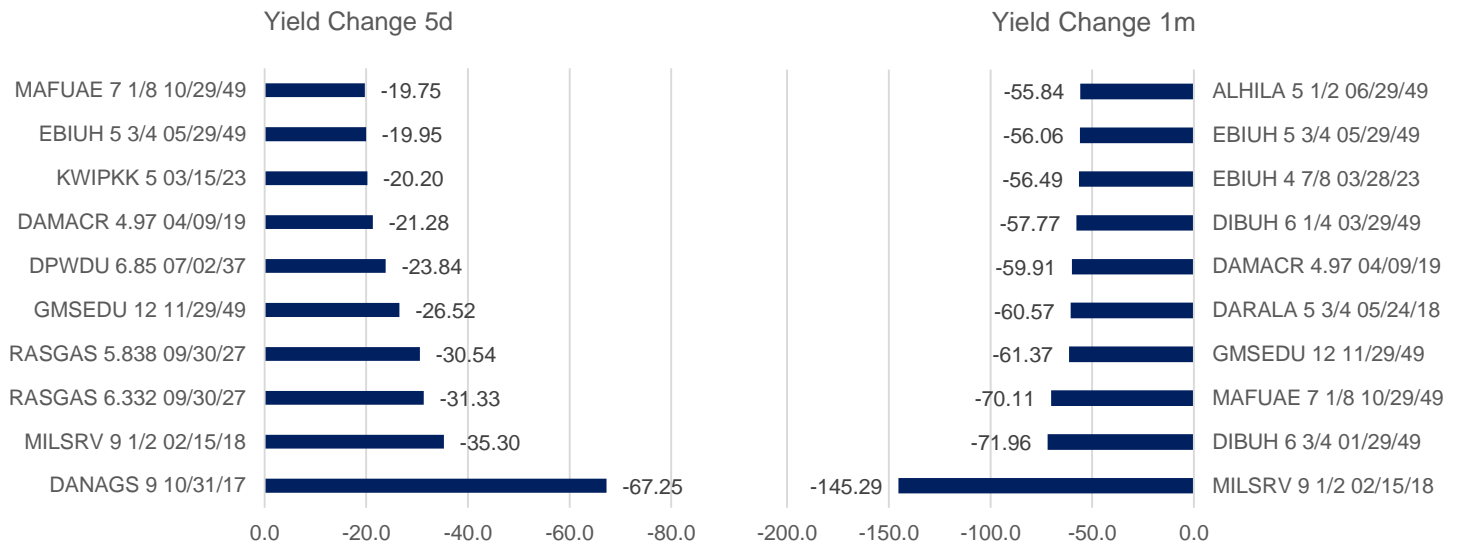
GCC Bonds – Yield To Workout Change by BICS Sector



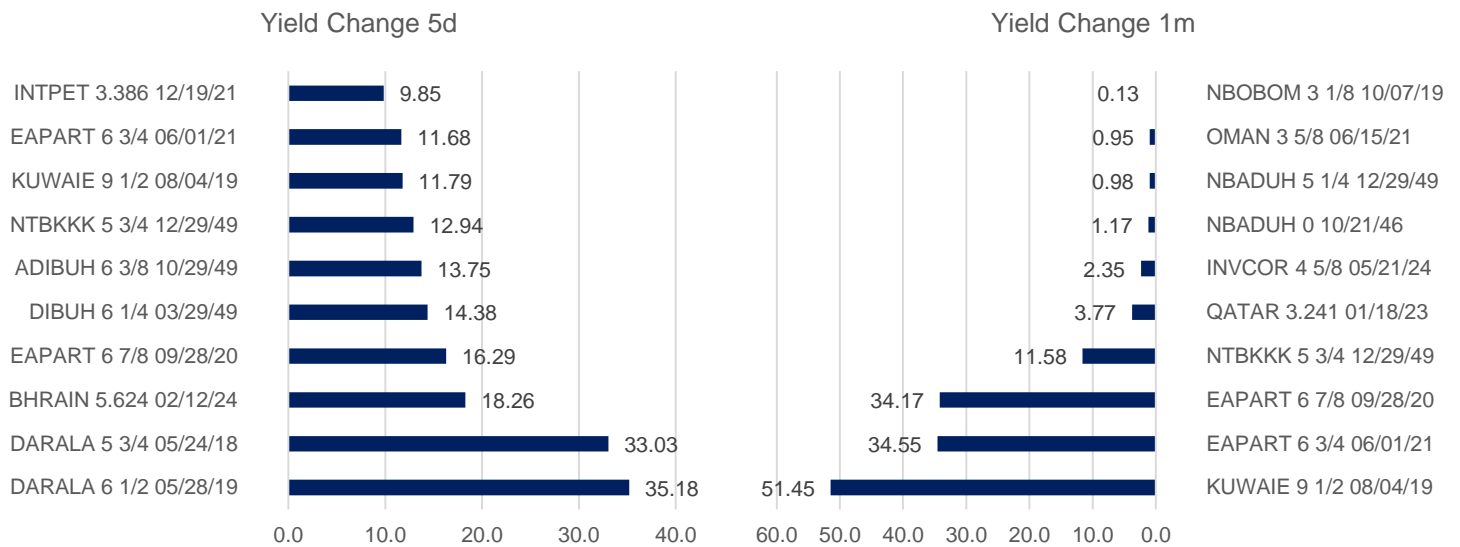
Source: Bloomberg, Emirates NBD Research

Performance

GCC Bonds - Top 10 Yield To Workout Changes



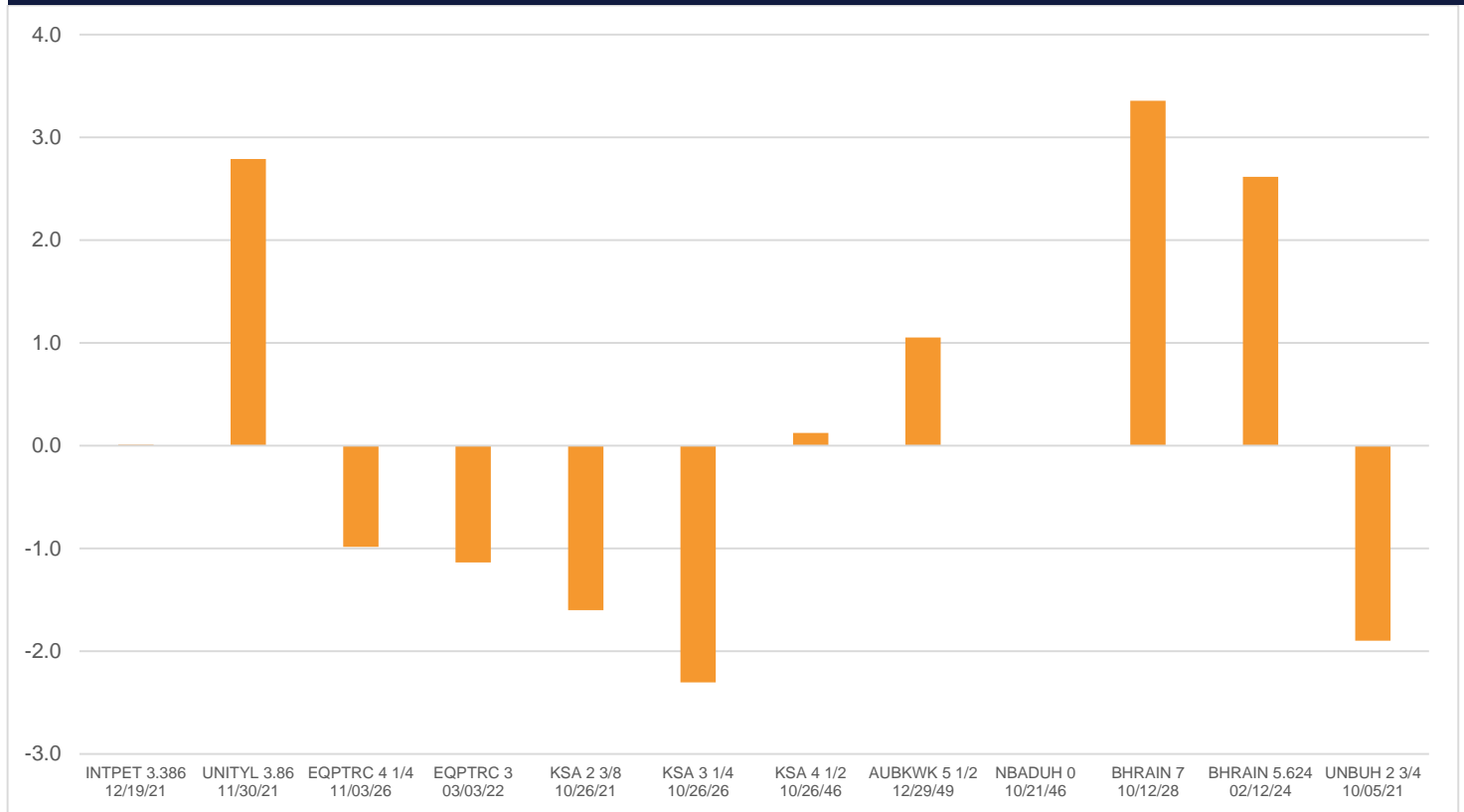
GCC Bonds - Bottom 10 Yield To Workout Changes



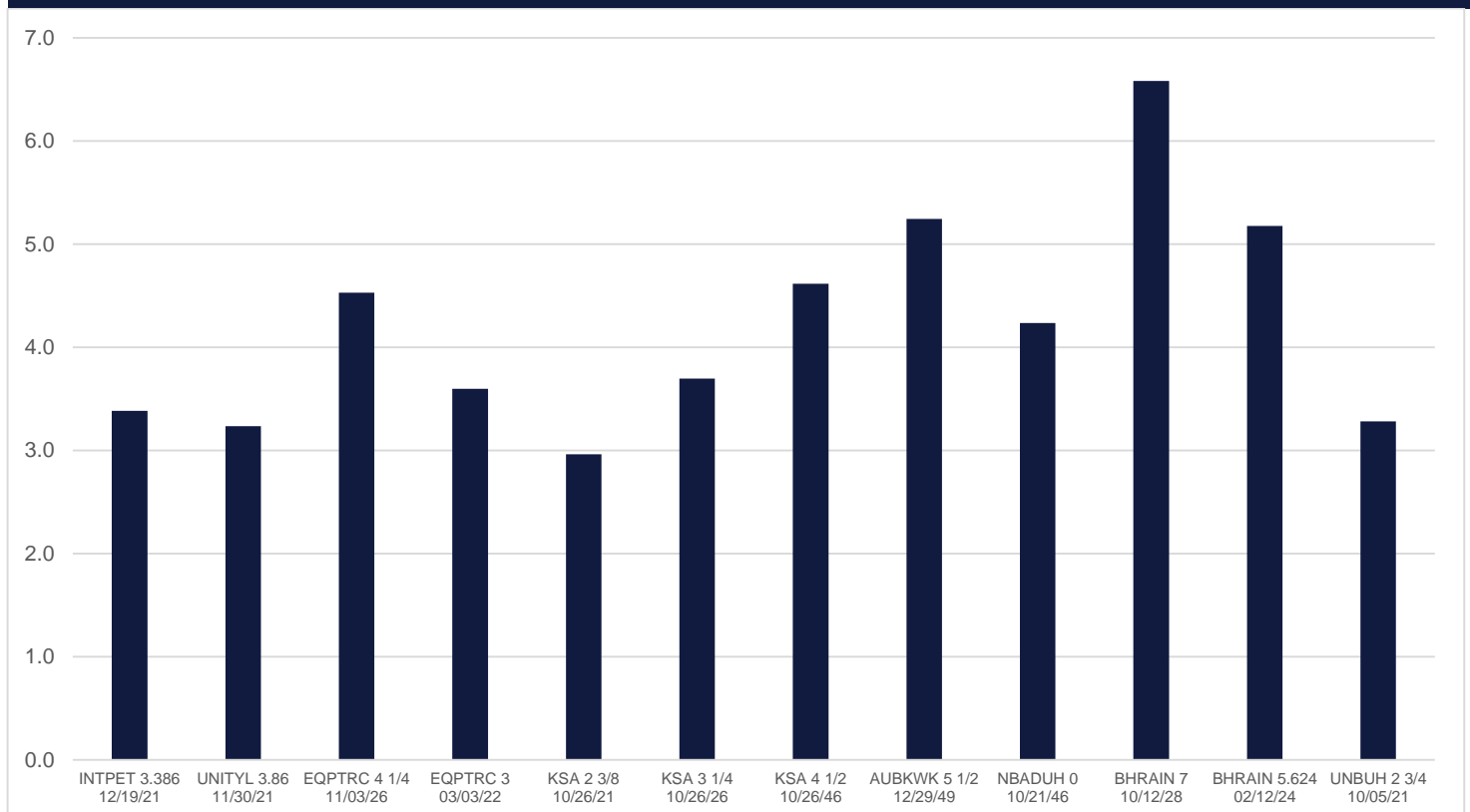
Source: Bloomberg, Emirates NBD Research

New Issue Monitor

Change in Price of Securities Issued in last three months



Mid Yield to Convention of Securities Issued in last three months



Source: Bloomberg, Emirates NBD Research

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