



بنك الإمارات دبي الوطني  
Emirates NBD

## Credit Weekly

27 November 2016

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# GCC Weekly Chart Pack

In a slow and holiday shortened week, fixed income markets were largely range bound with policy divergence becoming apparent in sovereign bond yields. Yields on UST continued to rise with 2yr and 10yr treasury yields closing at 1.12% (+5bps on the week) and 2.36% (+4bps) respectively while those on 10yr Gilts and Bunds narrowed down to 1.41% (-1bp) and 0.24% (-3bp) respectively. Though expectations of any positive outcome from the upcoming OPEC meeting this week are not well anchored, credit spreads remained well supported and high yield bonds across the globe did particularly well.

Against this backdrop, GCC cash bond prices remained resilient as tightening credit spreads provided some cushion against the rising benchmark yields. Also while quoted prices did reflect marginal weakening, it was amid extremely thin liquidity. Investors found it difficult to buy in sizes and primary markets had no big offering barring the private placement of \$1.5 billion of the Etihad Airways sukuk. Despite pricing competitively at MS+210bps, well inside the initial guidance, the Etihad sukuk debut strongly in the secondary market – tightening further circa 25bps to Z-spread of 174bps towards end of the week.

As is generally the case during the times of positive sentiment and early path of rate hike trajectory, high yield bonds performed better than the high grade. High yield bonds such as EAPART 20s and BATELC 20s were in top three performers. In contrast the longer dated high grade bonds from QATAR, KSA, Etisalat etc were among the worst performers.

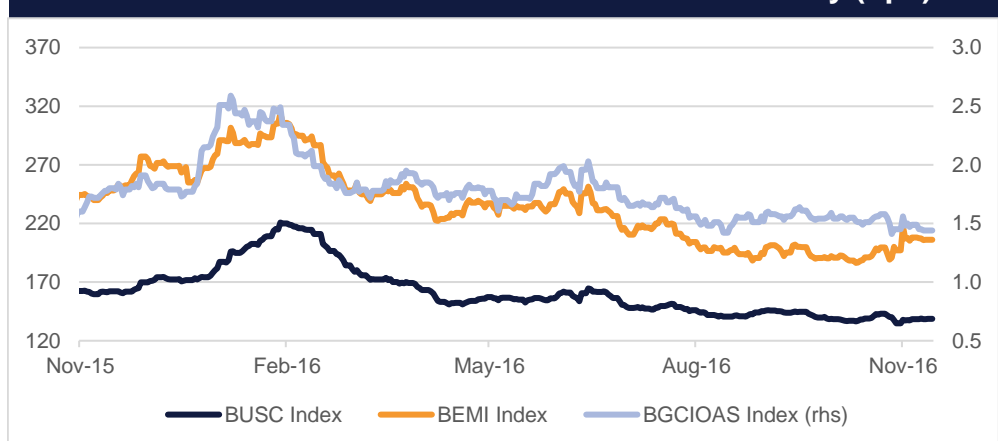
Volatility in the sukuk universe remained low compared to the conventional bonds and high beta names such as SECO were sought by bargain hunters. SECO 43s and 44s actually rose in price amid an otherwise subdued sentiment on bonds from Saudi Arabia. Also despite cautiousness surrounding increasing NPLs at Islamic banks due to their relatively higher exposure to real estate sector, Tier 1 securities from DIB regained part of the ground lost in earlier weeks. In contrast, Noor Bank Tier 1 remained under pressure and fell half a point, syncing with similar fall in DUGB 25s.

Barring energy related name such as Kuwait Energy that saw its B- rating placed on credit watch negative earlier this month and some names from Qatar, most other bonds in GCC recorded credit spread tightening. UAE remained best placed for credit spread compression given its diversified economy and good credit health of most issuers from UAE.

In terms of sectors, banks and financial institutions were the top performer as hopes build up for improved profit margins in an environment of increasing US rates. Transport and logistics sector was the weakest link as global trade come under spotlight after the Trump victory in the US

Although most bonds indices across the globe remained subdued in price terms, on credit spread basis, emerging market bonds outperformed the US IG universe and GCC bonds outperformed the wider emerging market index during the week. Bloomberg Barclays GCC bond index reflected 5bps tightening in OAS to 144 bps while OAS on EM bonds and US IG bonds closed at 206bps (-2bps) and 139bps (unchanged) respectively.

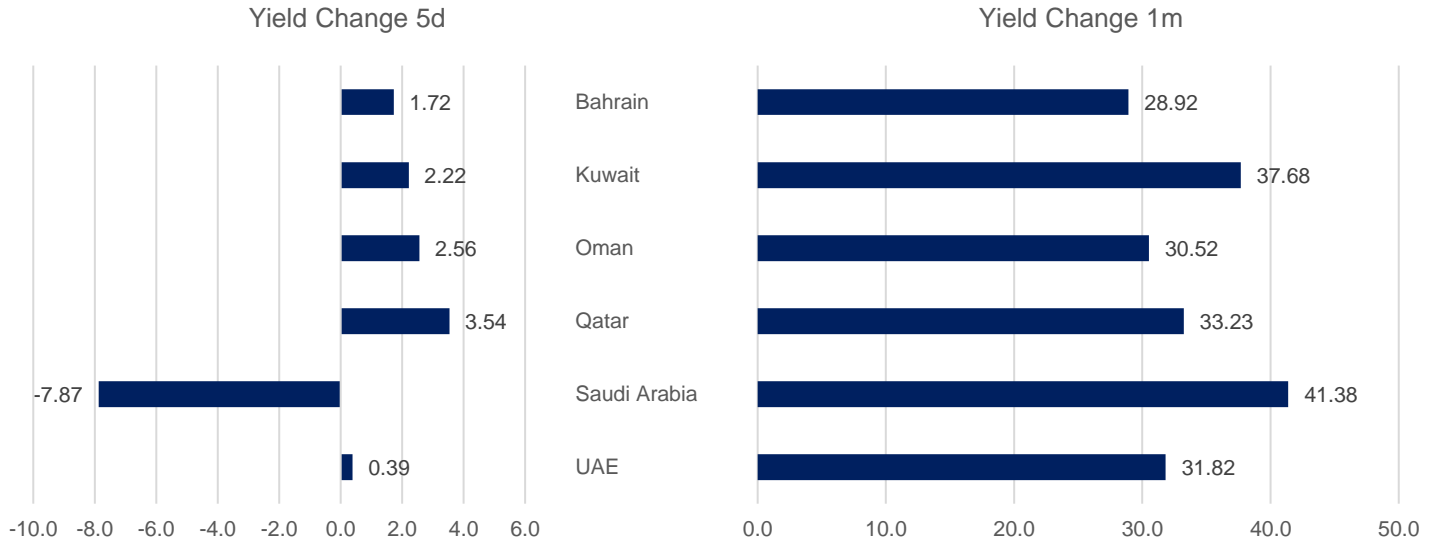
### GCC vs EM IG bonds and US IG Bonds – OAS history (bps)



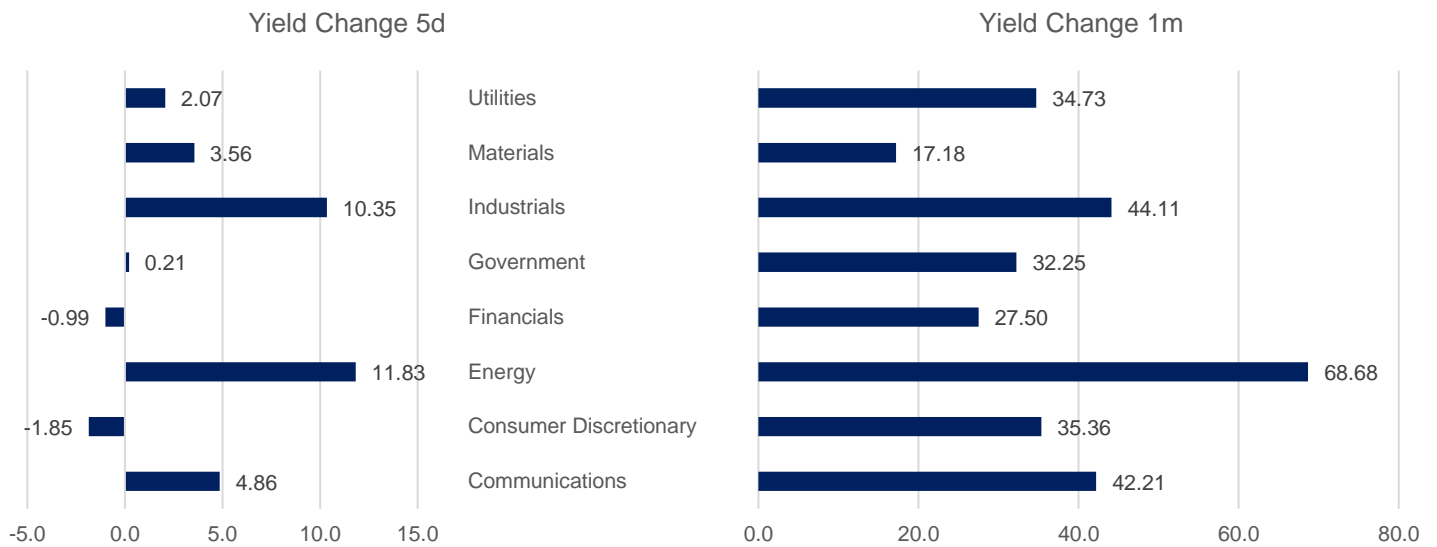
Source: Bloomberg, Emirates NBD Research

# Returns

## GCC Bonds – Yield To Workout Change by Country



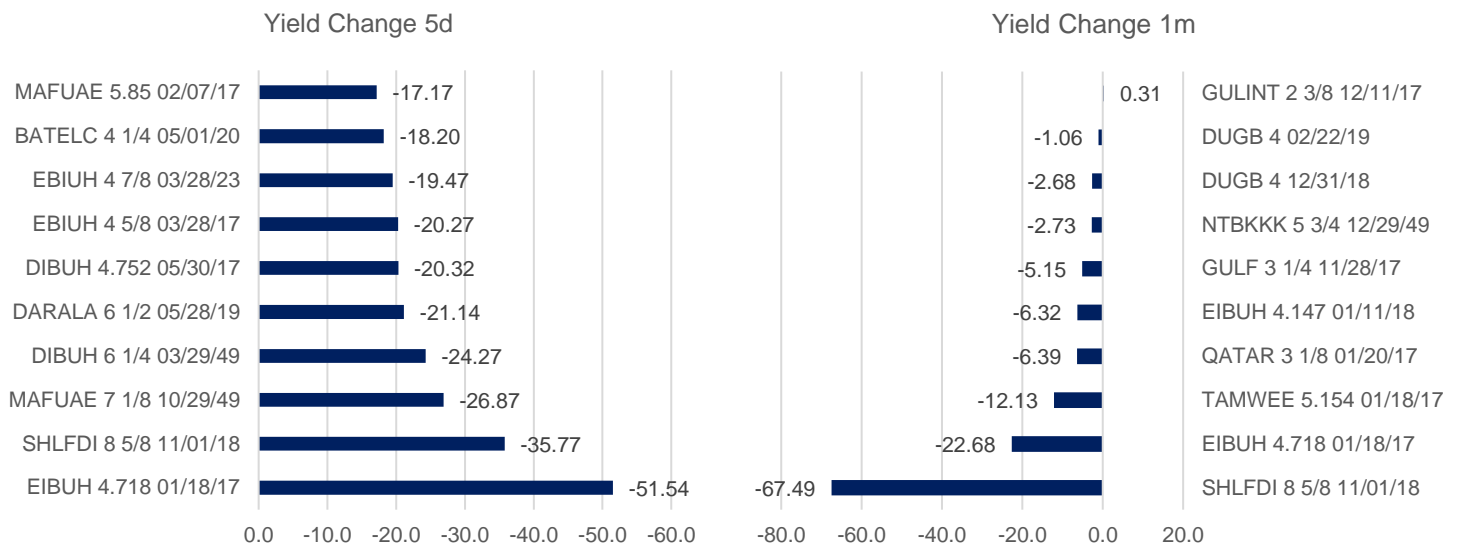
## GCC Bonds – Yield To Workout Change by BICS Sector



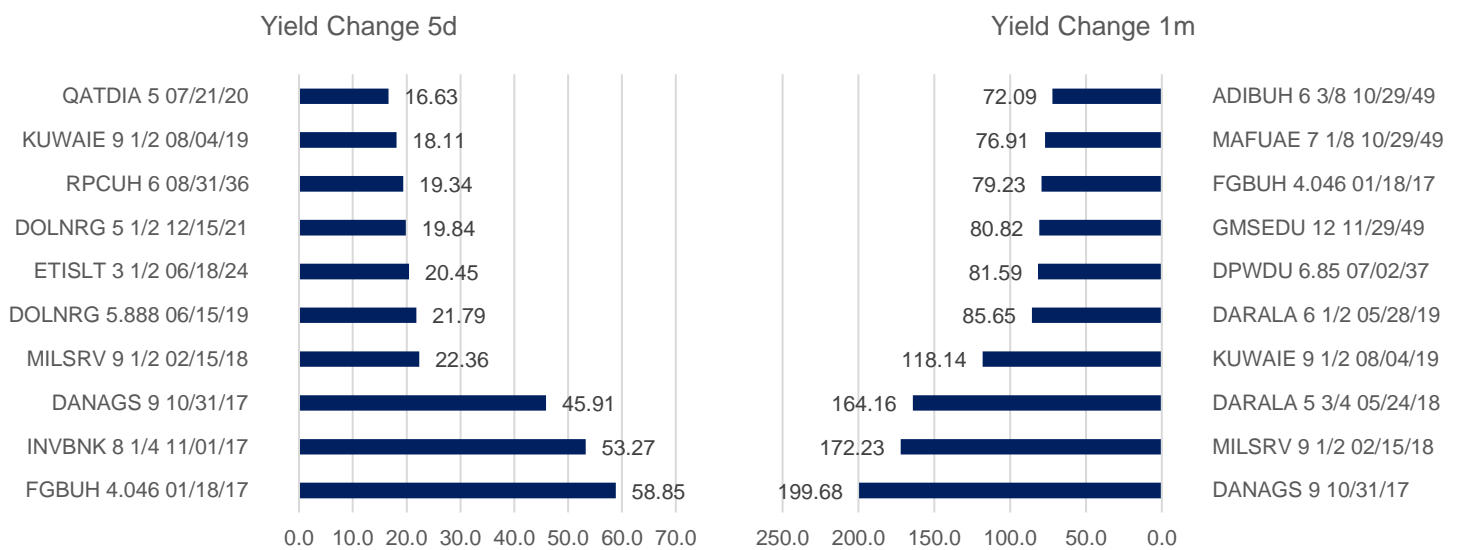
Source: Bloomberg, Emirates NBD Research

# Performance

## GCC Bonds - Top 10 Yield To Workout Changes



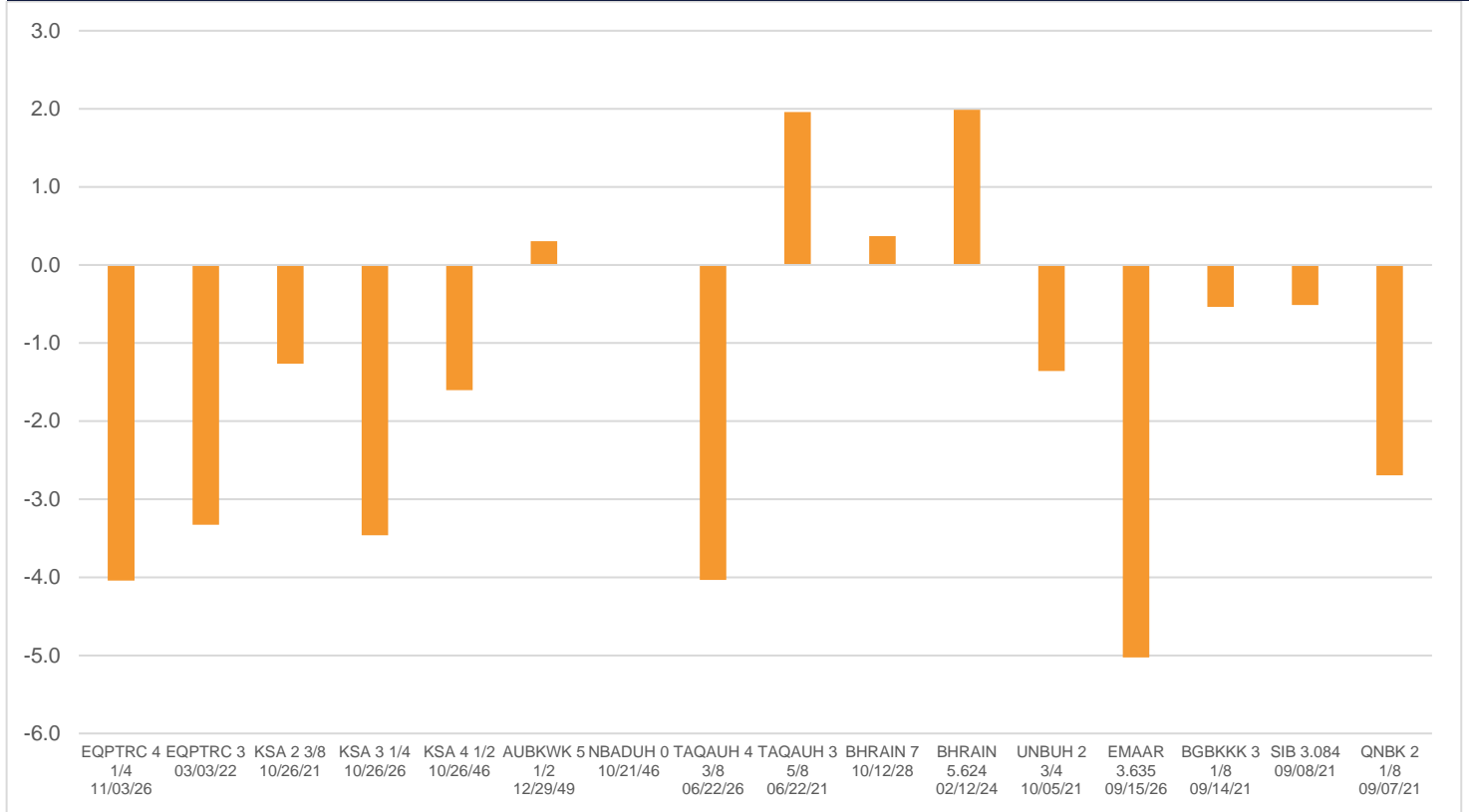
## GCC Bonds - Bottom 10 Yield To Workout Changes



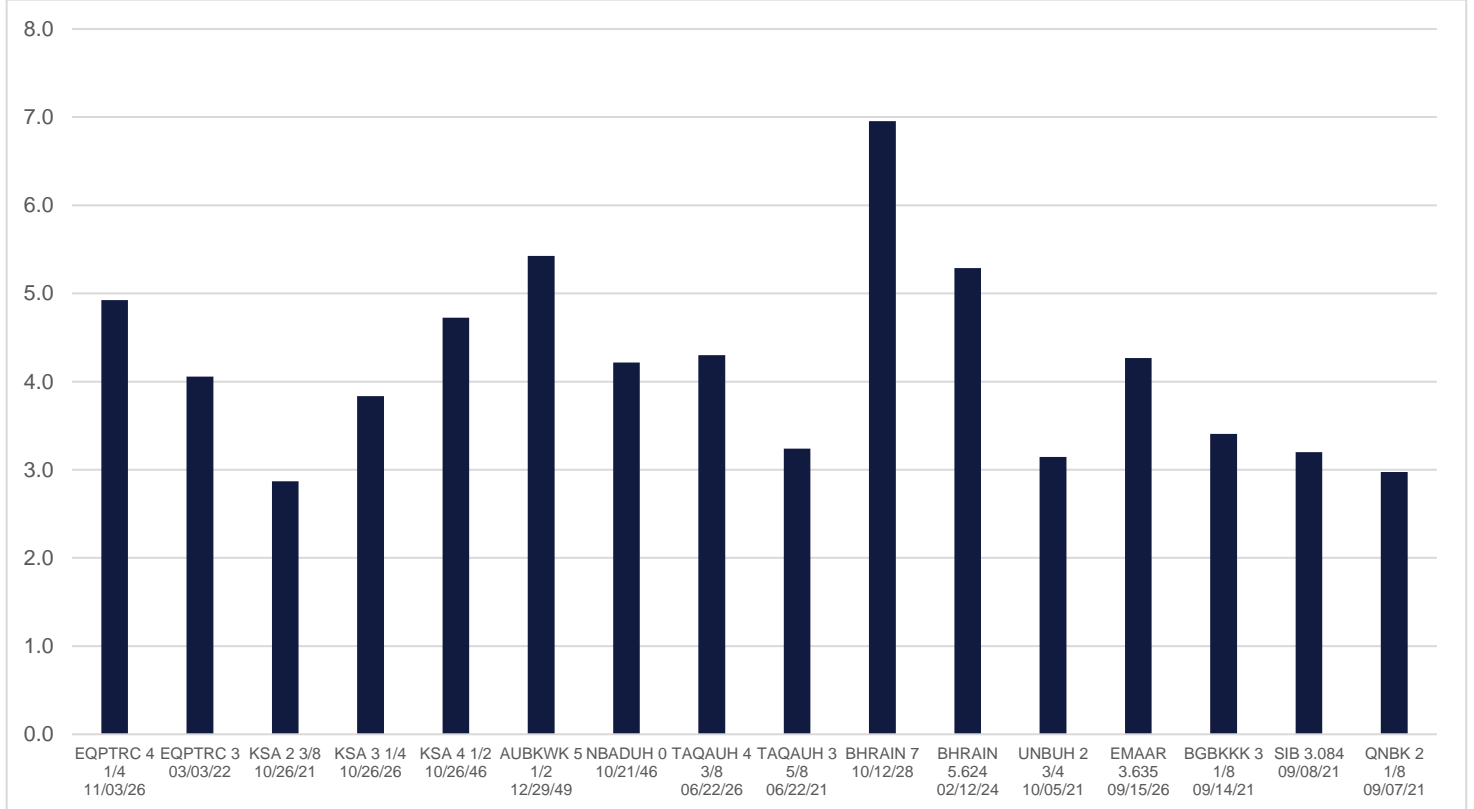
Source: Bloomberg, Emirates NBD Research

# New Issue Monitor

## Change in Price of Securities Issued in last three months



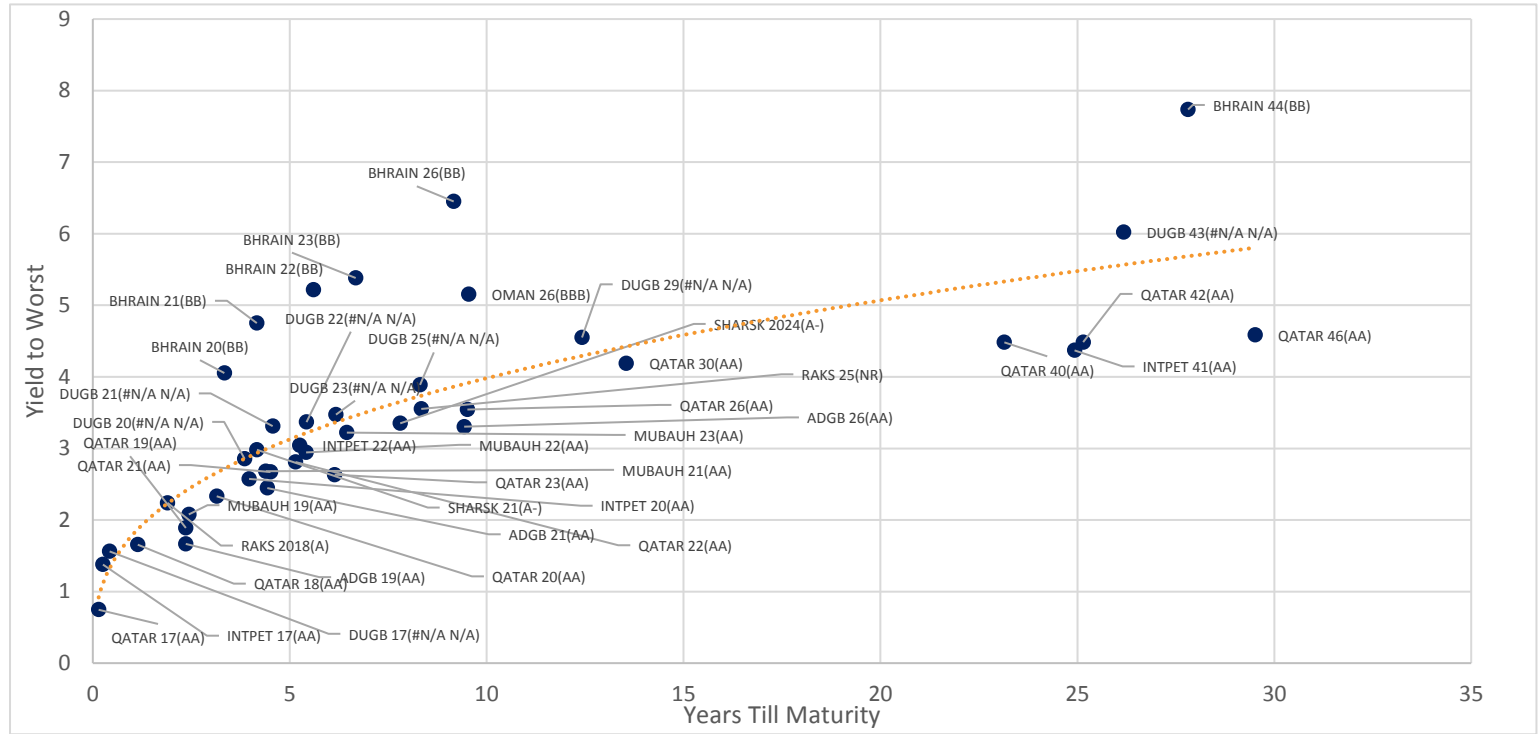
## Mid Yield to Convention of Securities Issued in last three months



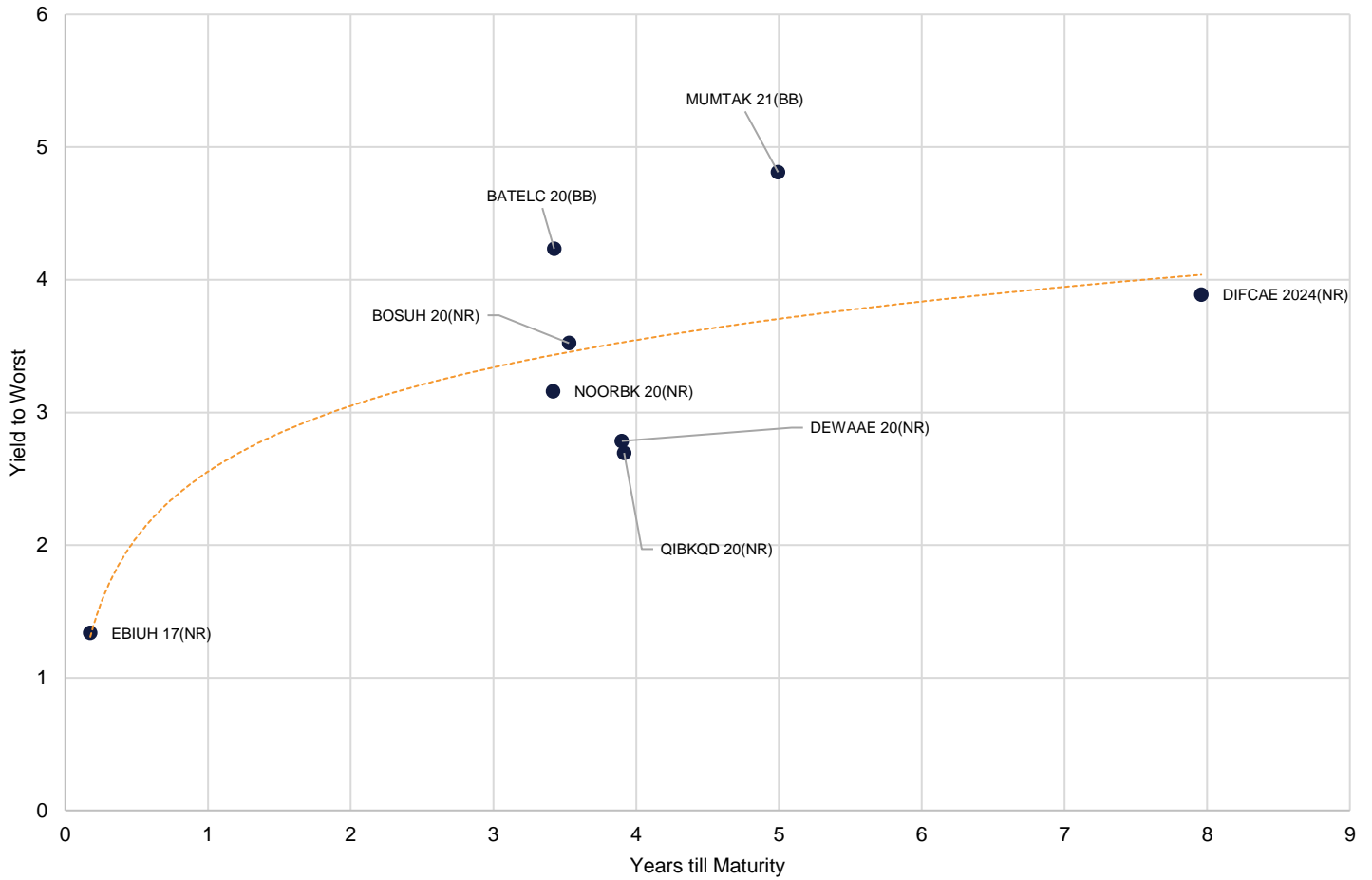
Source: Bloomberg, Emirates NBD Research

## Relative Value

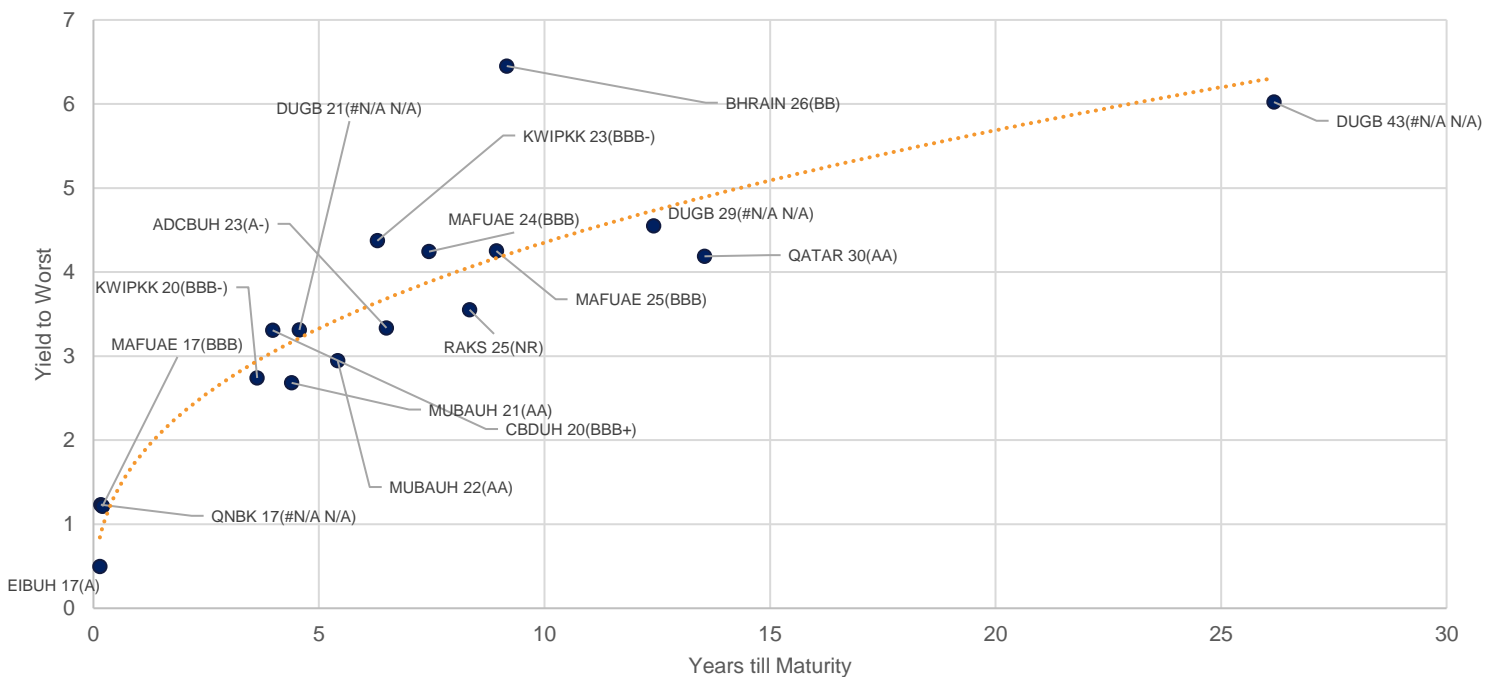
### Relative value of Sovereign Securities as of 27 November 2016



## Relative value of Other Banks and Corporates as of 27 November 2016



## Relative value of Investment Grade Corps as of 27 November 2016



Source: Bloomberg, Emirates NBD Research

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