



بنك الإمارات دبي الوطني
Emirates NBD

Sukuk Note

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Relative Value: Emirates NBD iBoxx Sukuk Index

US treasuries rallied last month in response to the Federal Reserve's accommodating bias. The FOMC left interest rates unchanged at its June meeting though the median long term rate was revised downwards and the dot plot no longer reflects a hike in 2020. While the median dot for 2019 was left unchanged at 2.375%, it is somewhat misleading as eight out of 17 Fed members see lower rates by the year end. There was nothing in the policy statement to suggest that the Fed will deviate from its plan to remain data dependent, however the language reflected that the Fed is clearly attentive to the mounting risks of an economic slowdown due to trade uncertainties. Yields on 2yr, 5yr and 10yr USTs closed the month of June at 1.76% (-35bps, m/m), 1.77% (-30bps, m/m) and 2.00% (-26bps, m/m) respectively.

Against this backdrop, USD denominated sukuk portfolios had a month of solid gains. Total return on the Emirates NBD Markit iBoxx USD Sukuk index in June was a gain of 1.68% of which 1.36% came from capital gains and the remainder from coupon collection. Year-to-date total return on the index has crossed 6.87%.

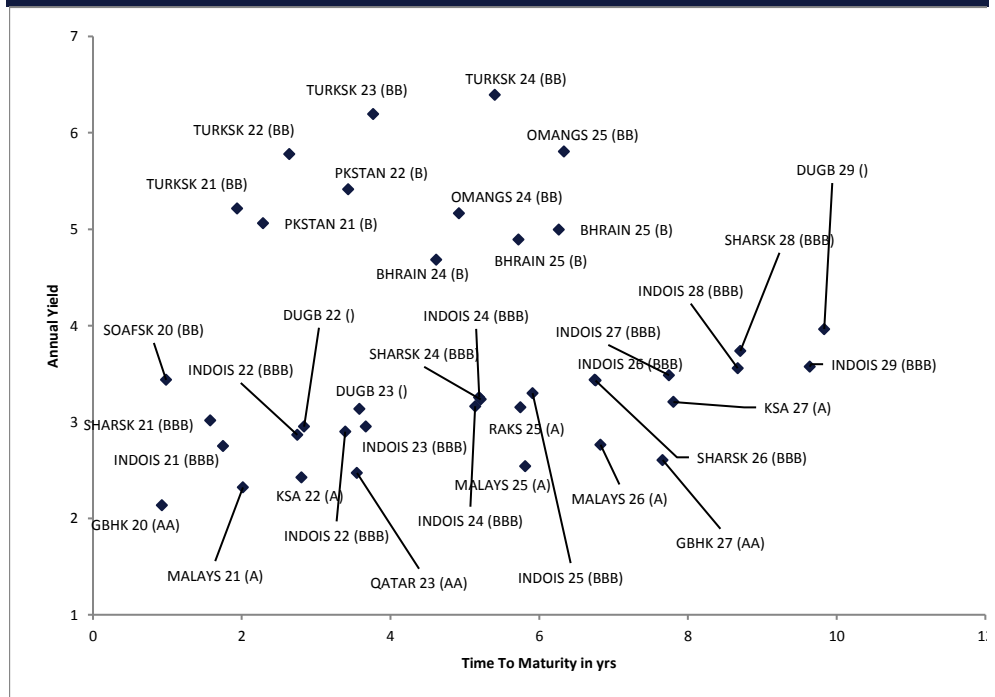
Continued geopolitical tensions in the middle-east are being counter balanced by expectations of lower global growth ahead, thereby keeping oil prices range-bound. Nevertheless, Brent crude futures closed the month 3% higher at USD 66.5 / b as OPEC+ agreed to extend production cuts by another 9 months. Strengthening platform for higher oil prices boosted the bid for securities in the index as a substantial chunk of them come from oil exporting economies.

Four securities (SOAFSK, GBHK, GARUDA and DIBUH) were excluded from the index in June as they fell short of one year to maturity. Currently the index has 105 securities amounting to USD 102.3 billion with the average rating at A-.

Based purely on trading yields on various sukuk as at the end of June, the following relative value observations are made:

- 1) In the sovereign sector :
 - a) TURKSK 23s, rated BB, trading at yield of 6.19% appear cheaper than similar rated OMANGS 24s trading at yield of 5.17%

Sovereign Sukuk Universe



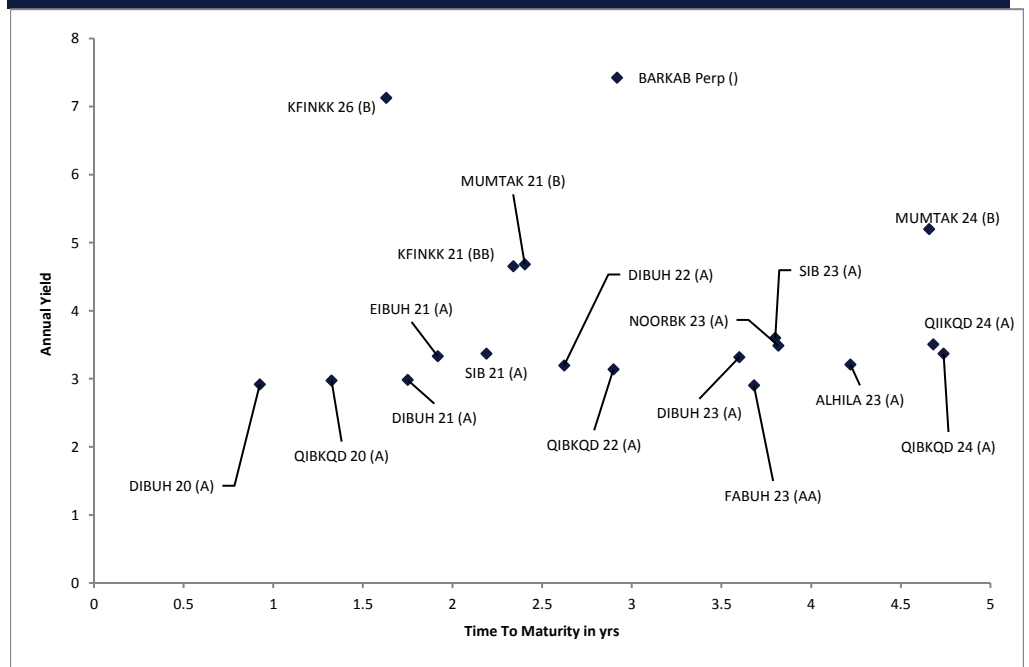
Source: Emirates NBD Research, Markit

- b) Also, TURKSK 21s, trading at yield of 5.21% and TURKSK 22s trading at yield of 5.78% appear cheaper than PKSTAN 21s and PKSTAN 22s trading at yield of 5.06% and 5.41% respectively despite Pakistan's two notch lower credit rating.
- c) 'A' rated RAKS 25s at yield of 3.15% are trading cheaper than MALAYS 25s at yield of 2.54% that have similar credit rating and marginally higher tenure.

2) In the financial space:

- a) Credit rating and trading yields on issuers in the financial sector are concentrated in a narrow band and reflect minimal value dislocations.
- b) That said, yield differential between DIBUH 23s (3.32%) and NOORBK 23s (3.49%) continue to reflect arbitrage opportunity assuming successful consummation of Noor's acquisition by DIB.
- c) EIBUH 21s trading at yield of 3.33% appear cheaper than similar rated DIBUH 21s at yield of 2.98%,

Financial sukuk universe

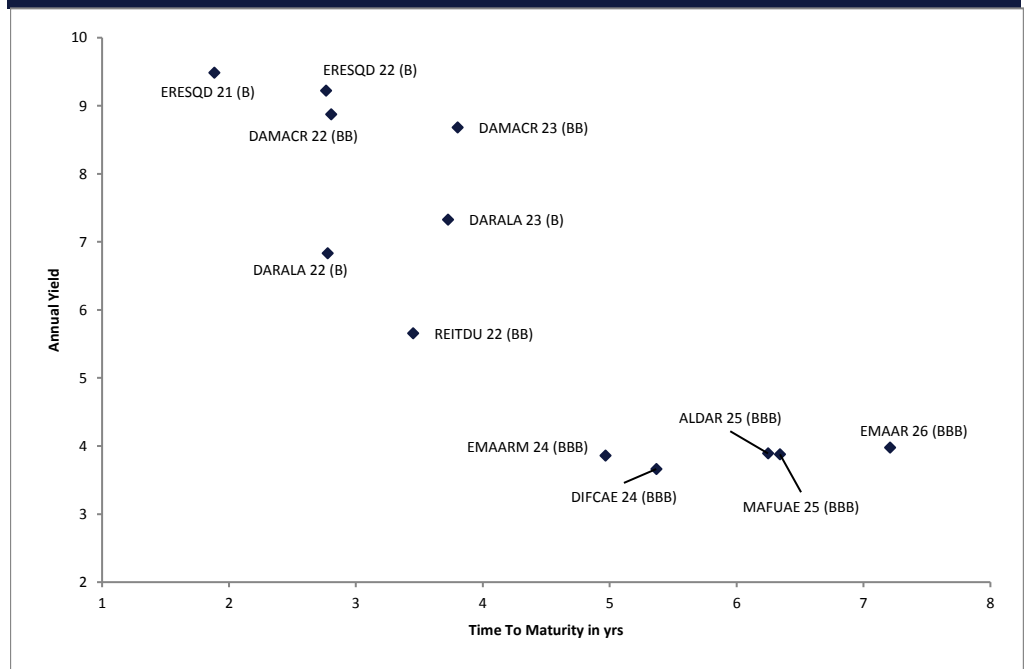


Source: Emirates NBD Research, Markit

3) In the real estate sector:

- a) Real estate issuers in the GCC are generally under pressure due to cyclical downturn in the industry and are currently trading wider than what may be warranted by their credit ratings.
- b) EMAARM 24s, rated BBB, at a yield of 3.86% appear cheaper than longer duration and BBB rated DIFCAE 24s at yield of 3.66%, particularly given the possible development work that DIFCAE may engage in.

Real Estate sukuk universe

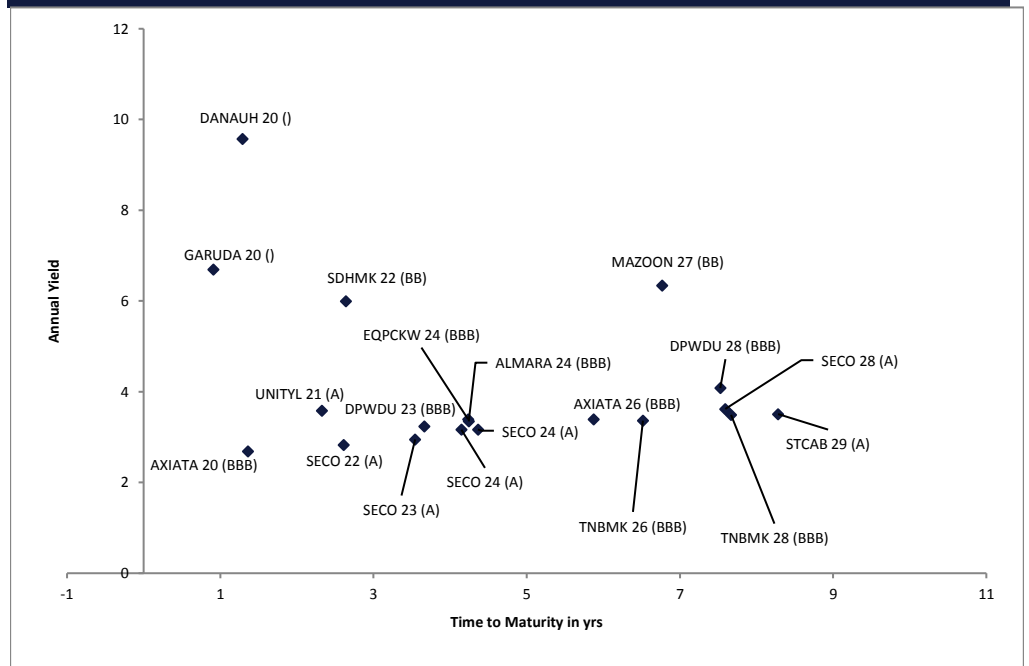


Source: Emirates NBD Research, Markit

4) In the corporate space:

- a) BBB rated EQPCKW 24s trading at yield of 3.39% appear expensive compared with SECO 24s trading at 3.16% given the three notch stronger credit rating of Seco.

Corporate sukuk universe



Source: Emirates NBD Research, Markit

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