



بنك الإمارات دبي الوطني
Emirates NBD

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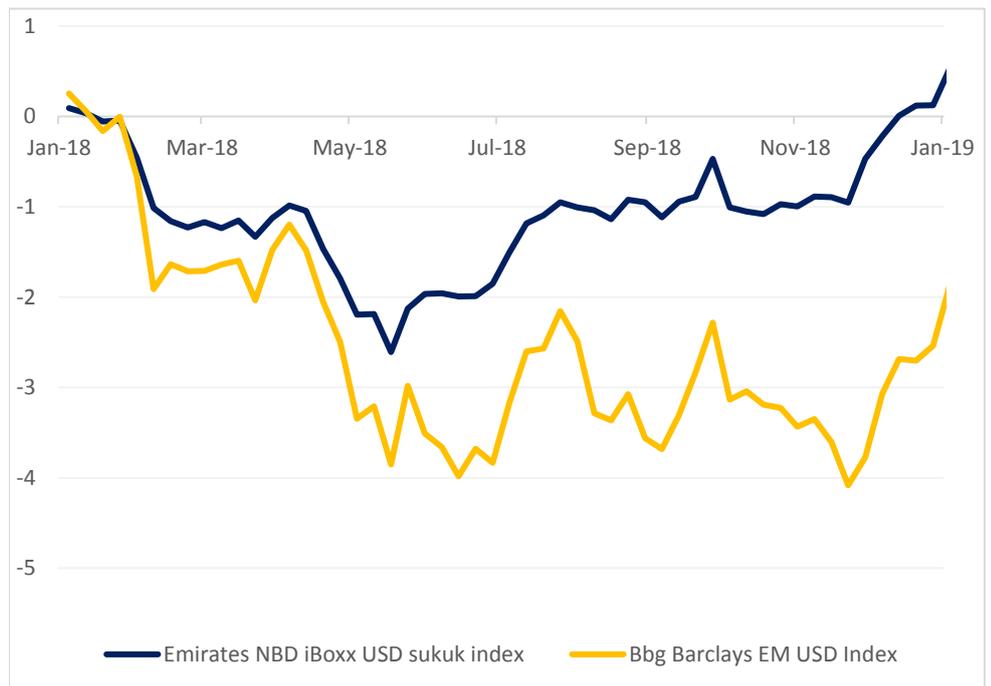
Emirates NBD iBoxx USD Sukuk Index – performance update

Last year was a tough year for financial markets with total return on most investable assets, particularly in USD terms, being negative as investors accommodated rising US rates and expectations of slower global economic growth ahead.

The US Federal Reserve raised interest rates four times by a total of 1% in 2018 to take the final Fed rate target to be between 2.25% - 2.5%. As expected, yield on 2yr, 5yr, 10yr and 30yr treasuries increased substantially, closing the year 2018 at 2.49% (+61bps y/y), 2.51% (+30 bps y/y), 2.68% (+27 bps y/y) and 3.01% (+27bps y/y) respectively. Rising benchmark yields provided a challenging platform for USD denominated bonds and sukuk portfolios. In addition widening credit spreads exacerbated the negative impact.

Against this backdrop, even though international sukuk did not remain unscathed amid general sell off in EM assets, they did noticeably outperformed their conventional bond counterparts last year. Total return on Emirates NBD Markit iBoxx sukuk index was a small gain of +0.26% last year compared with a loss of -2.5% on EM bond index.

Total return on EM bonds vs sukuk - %



Source: Emirates NBD Research, Bloomberg

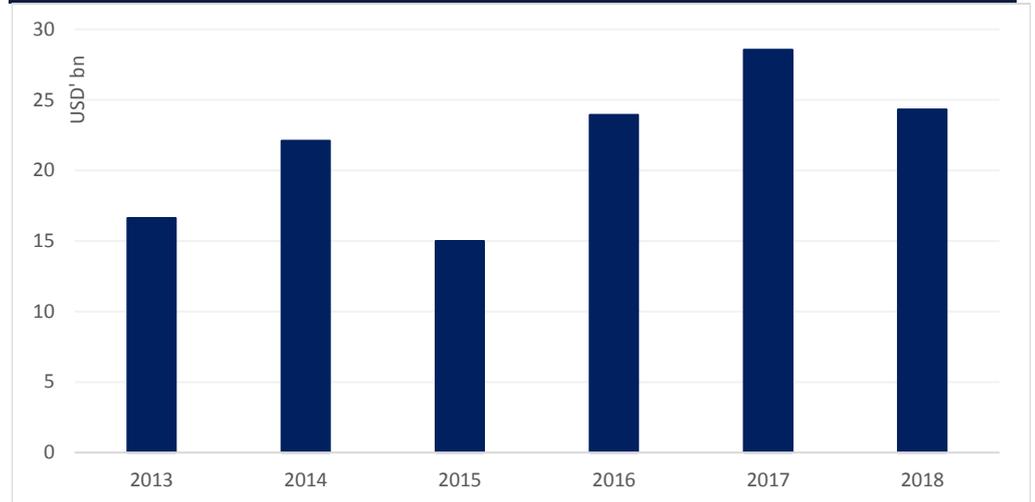
The outperformance of the Emirates NBD iBoxx Sukuk index over other EM fixed income portfolios can be attributed to factors such as below:

- The ENBD sukuk index has relatively fewer number of lower rated volatile emerging market issuers compared with those in the Barclays EM USD index and consequently suffered less during the generalised sell off in EM assets in the second half of last year.
- GCC represents over two thirds of USD denominated international sukuk index. With JP Morgan announcing plans to include GCC sovereign and quasi sovereign bonds and sukuk into their EMBI index, GCC sukuk enjoyed significant new demand which underpinned their performance.

Primary Market in Sukuk Remains Healthy

Rising oil prices reduced the need for sovereigns in oil exporting countries (which traditionally have been the biggest issuers of sukuk) to raise debt via sukuk, which in turn slowed the pace of new issuance in the sukuk universe. However, some of this impact is being cushioned by new issuers from likes of Pakistan and some issuers out of Africa entering this space.

USD denominated International sukuk – new issues

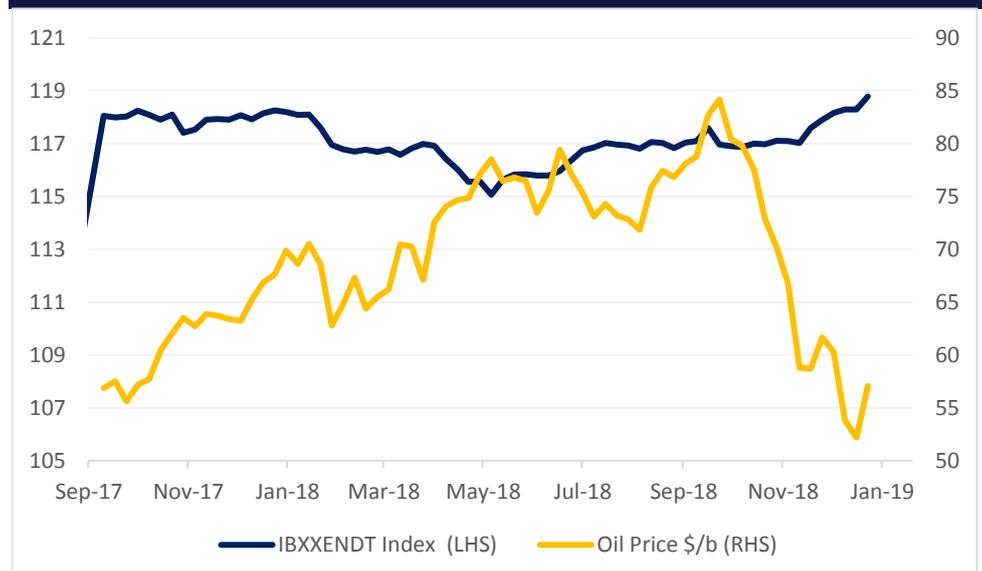


Source: Emirates NBD Research, Bloomberg

Impact of Oil Prices

Given the dominance of oil exporting sovereigns in the sukuk index, the performance of the index is generally sensitive to oil prices. However, the recent decline in oil prices was well absorbed by the index constituents as it coincided with decline in UST benchmark yields in the last few weeks of the year.

ENBD sukuk index total return vs oil prices



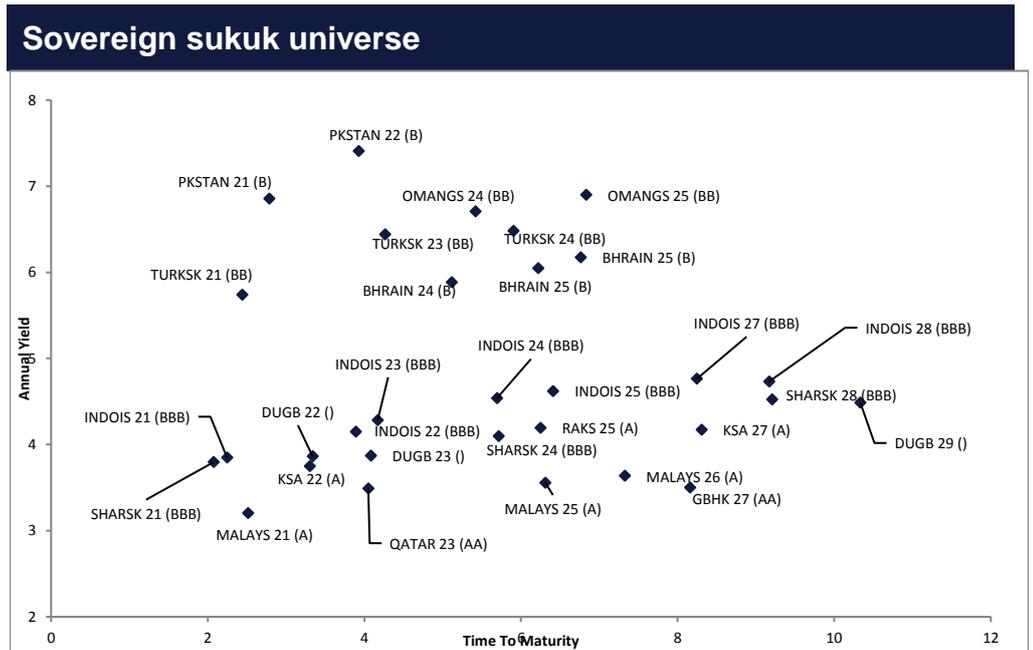
Source: Emirates NBD Research, Bloomberg

Relative Value

Relative value of various sukuk in the index based on their current trading yields is as below:

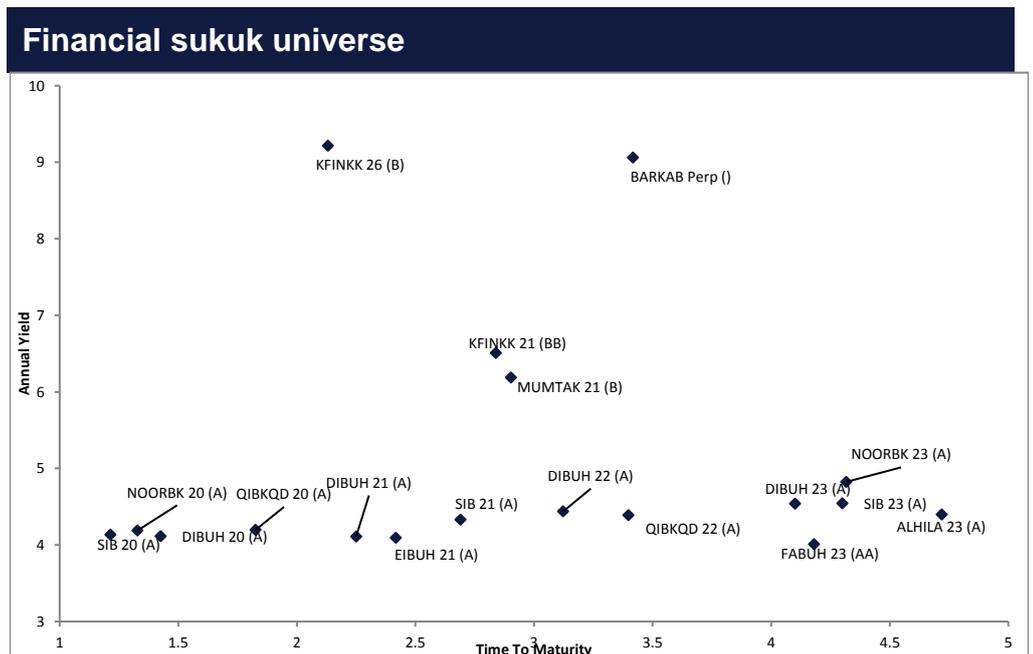
1) In the sovereign space:

- a) Oman curve looks cheaper than Turkey curve for comparable credit ratings. Similarly, the KSA sukuk appear to be trading cheaper than those issued by Malaysia.



Source: Emirates NBD Research, Markit

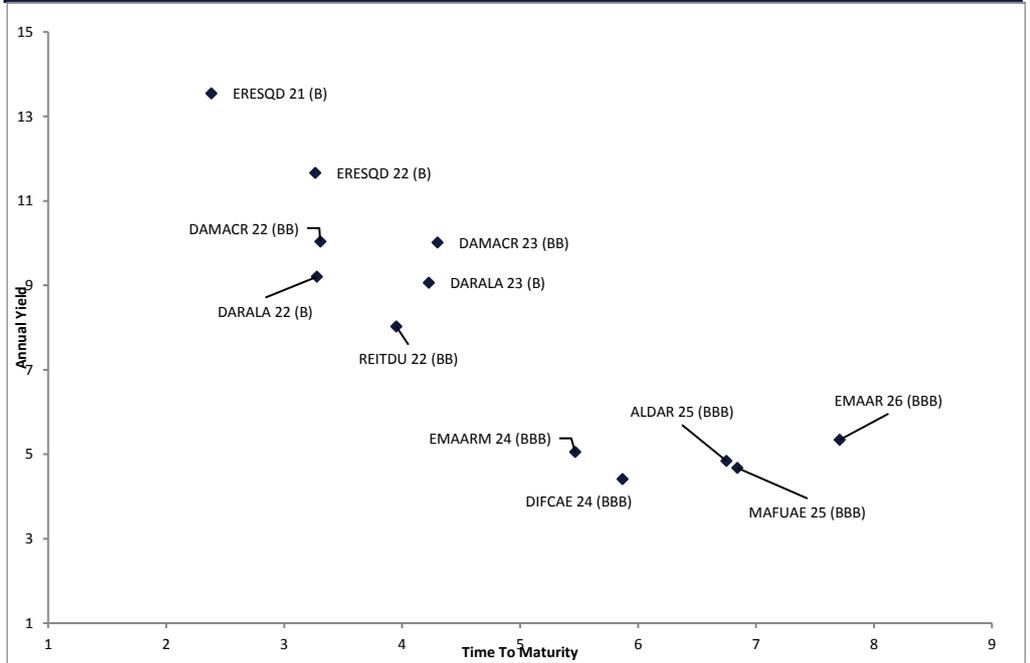
2) In the financial space, Qatar based banks seem to have recovered from their previously oversold position.



Source: Emirates NBD Research, Markit

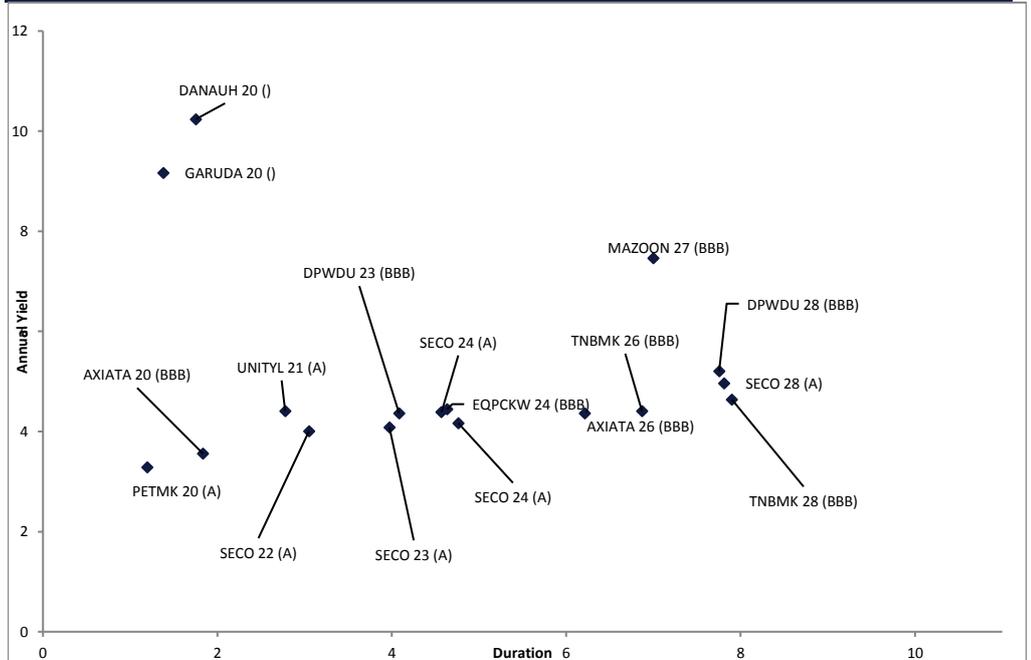
3) In the real estate and corporate sectors, there has been no material change in the relative trading levels of various sukuk in the recent past.

Real Estate sukuk universe



Source: Emirates NBD Research, Markit

Corporate sukuk universe



Source: Emirates NBD Research, Markit

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