



GCC Bonds Monitor - May 2019

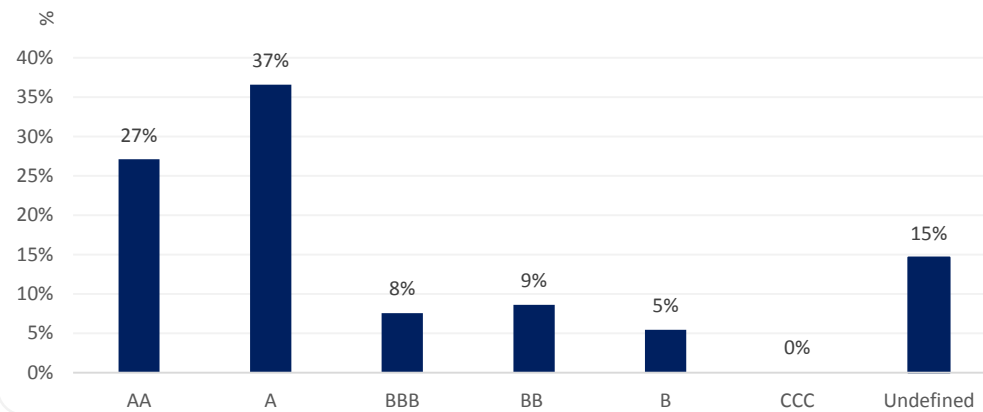
Anita Yadav,
Head of Fixed Income Research



HIGHLIGHTS

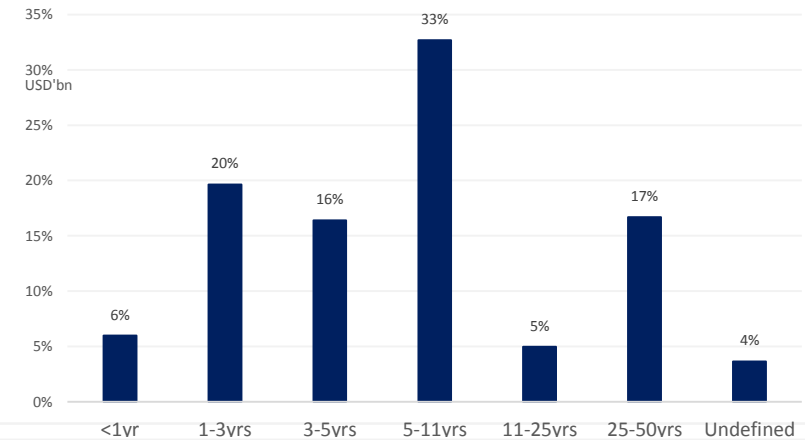
- As at the end of April 2019, total outstanding in the GCC fixed rate USD bond universe is circa USD 324 bn which has increased from around USD 180 bn in 2014
- About 42% of outstanding bonds mature in less than five years and 75% in less than 11 years. Circa 22% of the total is in sukuk format.
- Circa 86% is rated investment grade (assuming Dubai Inc in the BBB range).
- UAE, Qatar and Saudi accounted for 34%, 21% and 26% of the total market respectively with Bahrain attributing only 6%.

Credit Rating Breakdown



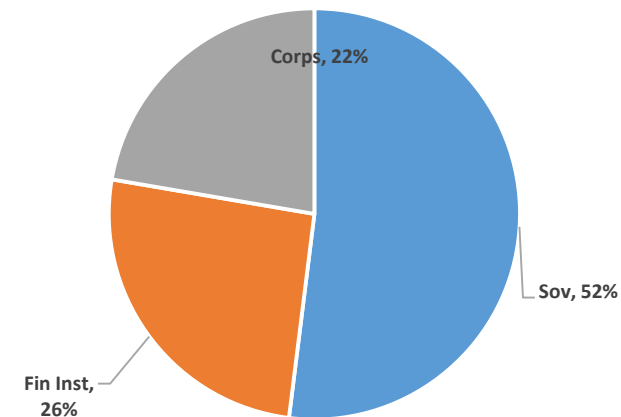
Source: Bloomberg, Emirates NBD Research

GCC Universe Maturity Profile



Source: Bloomberg, Emirates NBD Research

Sector Breakup



Source: Bloomberg, Emirates NBD Research



KEY DEVELOPMENTS IN APRIL 2019

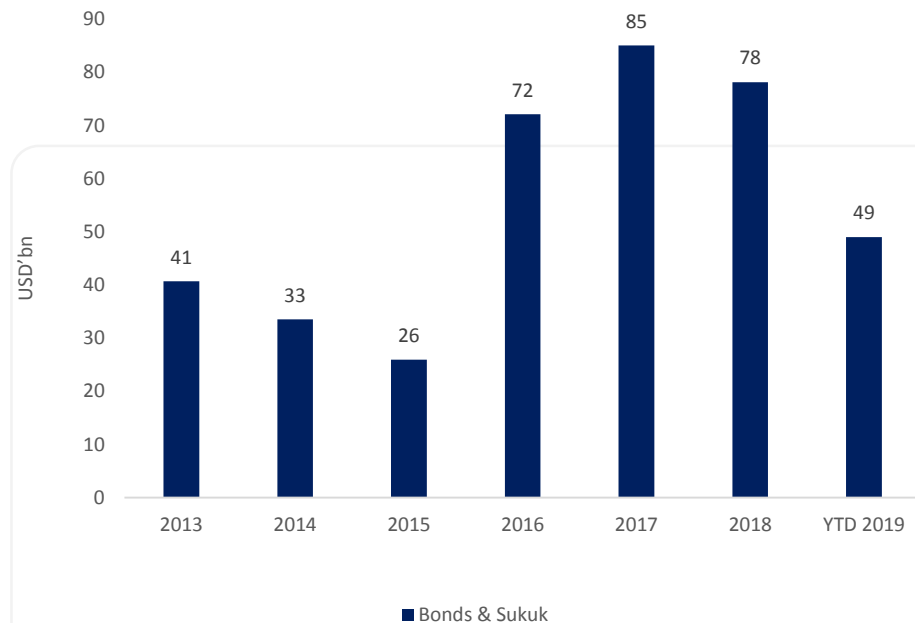
- GCC primary market was healthy with year-to-date total new issuance in dollar denominated fixed rate bonds exceeding the USD 49 bn mark. Sukuk issues lagged steam with only USD 7 bn of new issues so far this year.
- The removal of waivers on Iran sanctions boosted the case for oil prices to rise, thereby boosting sentiment on GCC bonds which recorded credit spread tightening.
- S&P downgraded the outlook on Oman's BB rating from stable to negative, firmly placing the sovereign on the path for future downgrades.
- Technical bid from inclusion in the JP Morgan EMBI index continued to support GCC Bonds with average credit spread on Bloomberg Barclays GCC index tightening by 17bps from 176bps to 159bps versus the ones on emerging market index tightening only 3bps from 292bps to 289bps during the month of April.
- Sector diversification improved further during the month with maiden issuance from Saudi Telecom.
- Bankruptcy of India's Jet Airways continued to keep EA Partners in default and its bonds depressed.



HIGHLIGHTS

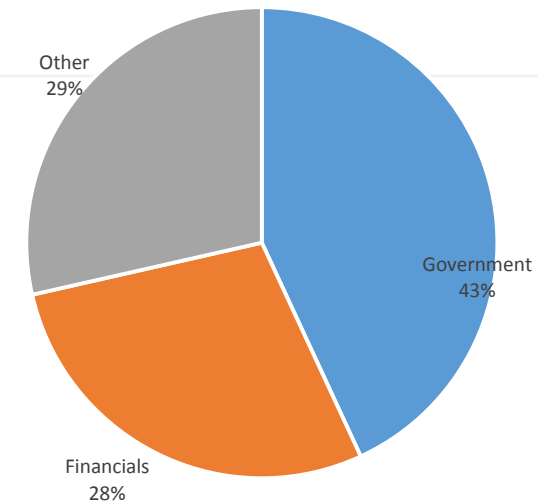
- New supply has been abundant so far and augurs well to meet our target of between USD 70 bn to USD 90 bn in new issues this year. Beside sovereigns, corporate issuers are expected to be active with several new issuers such as Aramco and Saudi Telecom having already tapped the market.

New supply : USD fixed rate GCC bonds



Source: Bloomberg, Emirates NBD Research

Corporate issuers picking up pace



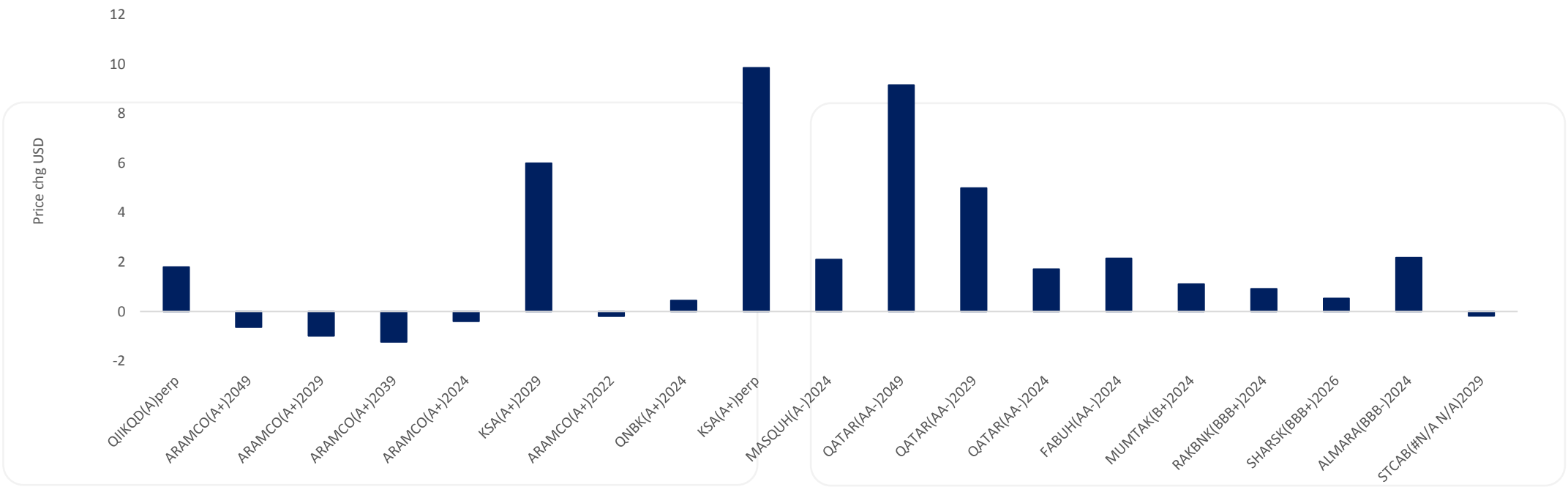
Source: Bloomberg, Emirates NBD Research



HIGHLIGHTS

- Secondary market performance of new issues was mixed. Aramco bonds priced very competitively amid high demand in the primary market but eventually migrated towards the KSA sovereign curve in the secondary market trading.
- In contrast, previously issued sovereign bonds from KSA and Qatar remained well bid, partly because of the index inclusion related bid.

YTD Price Change for new bonds



Source: Bloomberg, Emirates NBD Research

RECENT CREDIT RATING CHANGES



- Union National Bank's rating was withdrawn after its merger with the Abu Dhabi Commercial Bank.
- Kuwait's rating was affirmed and Aa2 rating assigned to Kuwait Government's International Bond possibly alluding to new issue from the sovereign soon.
- Kuwait Energy's rating was upgraded after its acquisition by the Hong Kong listed United Energy Group.

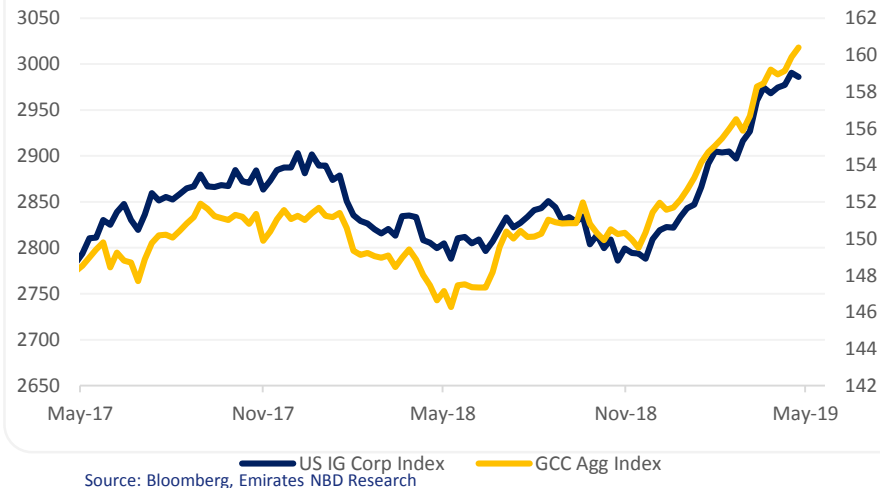
Company Name	Date	Agency	Curr Rtg	Last Rtg
ADES International Holdings	4/29/2019	S&P	B+	
Kuwait Energy PLC	4/29/2019	S&P	B-	CCC+ *+
Kuwait Energy PLC	4/30/2019	Fitch	CCC * +	CCC *
Saudi Arabian Oil Co	4/10/2019	Fitch	A+	
Kuwait Project Co	4/30/2019	Moody's	Baa3	
Union National bank	5/2/2019	Fitch	WD	A+
Kuwait Govt	5/2/2019	Moody's	Aa2	

Source: Bloomberg, Emirates NBD Research

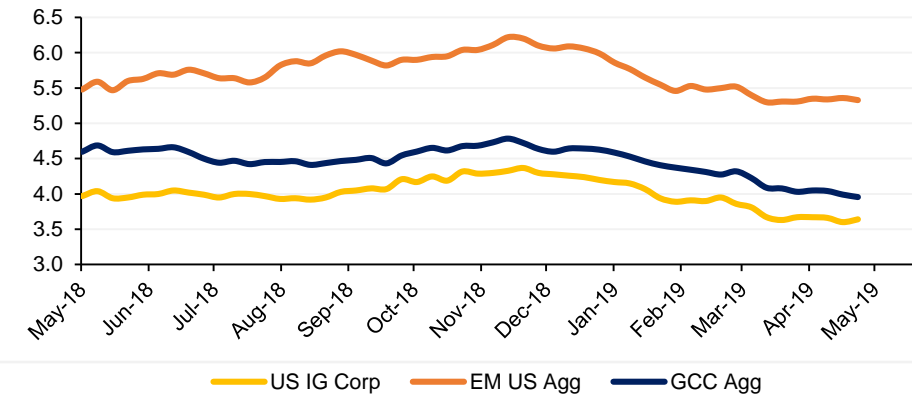
HIGHLIGHTS

- In the month of April, yield on Bloomberg Barclays GCC bond index tightened by 13bps to 3.94% compared with 1bp widening in the emerging market index to 5.32% and 3bps tightening in the US IG Corp index to 3.60%.
- This is partly as a result of improving sentiment on oil prices after waivers on Iranian oil imports came to an end and partly because of the continued bid on the back of JP Morgan EMBI index inclusion.

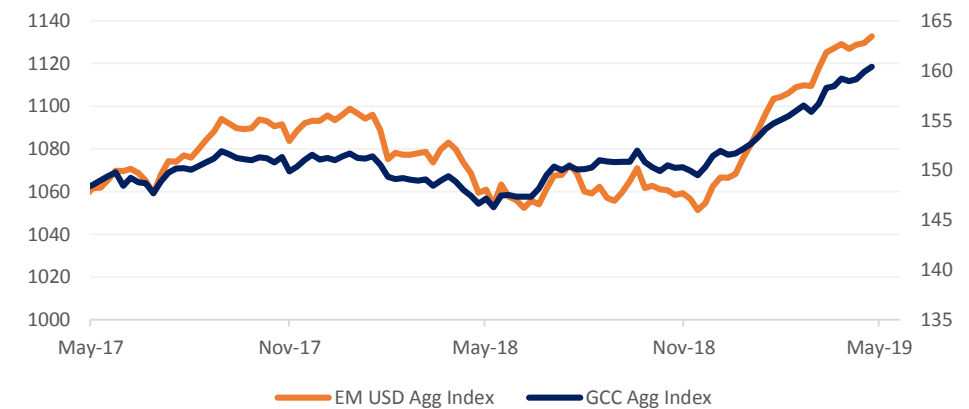
Total return: GCC vs US IG Corp



Global Bond Indices YTW %



Total return : GCC vs EM USD bonds

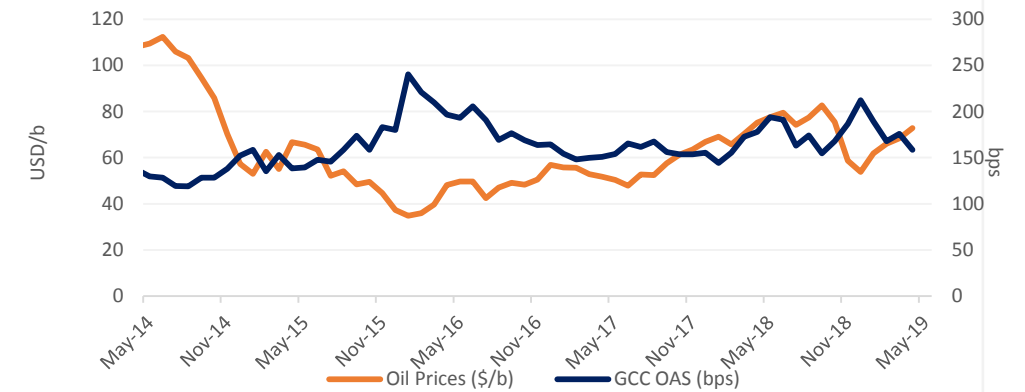




HIGHLIGHTS

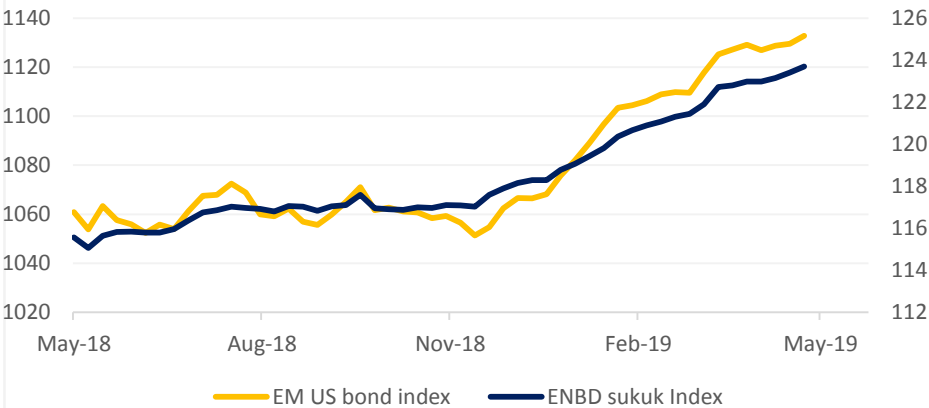
- The correlation of GCC bonds’ credit spreads with oil prices remained intact in April whereby credit spreads on GCC bonds tightened 17bps as Brent crude future reflect 6% increase in oil prices to USD 73/b.
- Duration weighted return on GCC bonds compare favorably with that on US and European IG corps.
- Total return on Emirates NBD Markit iBoxx sukuk index in April was a small gain of 0.67% compared with a gain of 0.39% on EM bond index. YTD performance of the sukuk universe still remains above that of conventional bonds, however this could also be reflective of the average higher credit ratings and shorter duration on sukuk portfolios compared with conventional counterparts.

GCC bond spreads relationship with oil prices is high



Source: Bloomberg, Emirates NBD Research

Sukuk outperformed conventional bonds



Source: Bloomberg, Emirates NBD Research

GCC bonds look attractive on relative value

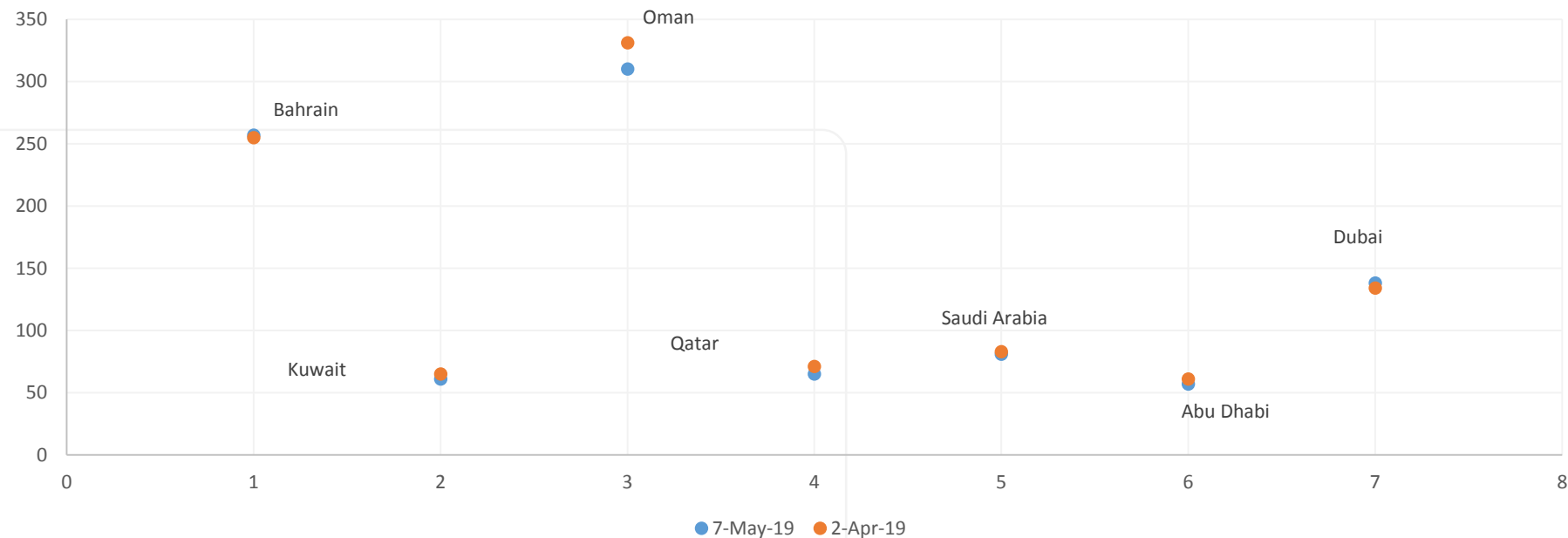
	Yield %	OAS bps	YTD Return %
US Agg	2.94	44	3.26
Euro Agg	0.48	75	2.83
EM US Agg	5.29	288	6.05
GCC IG	3.67	124	5.56
GCC All	3.96	160	5.78

Source: Bloomberg, Emirates NBD Research

HIGHLIGHTS

- Yield on GCC bonds fell by 13bps to 3.94% in April mainly as a result of falling credit spreads amid a patient Federal Reserve.
- However GCC sovereign CDS spreads were more range-bound with some contraction in high yield sovereign i.e. Oman and Bahrain.

Sovereign CDS spreads remained range-bound



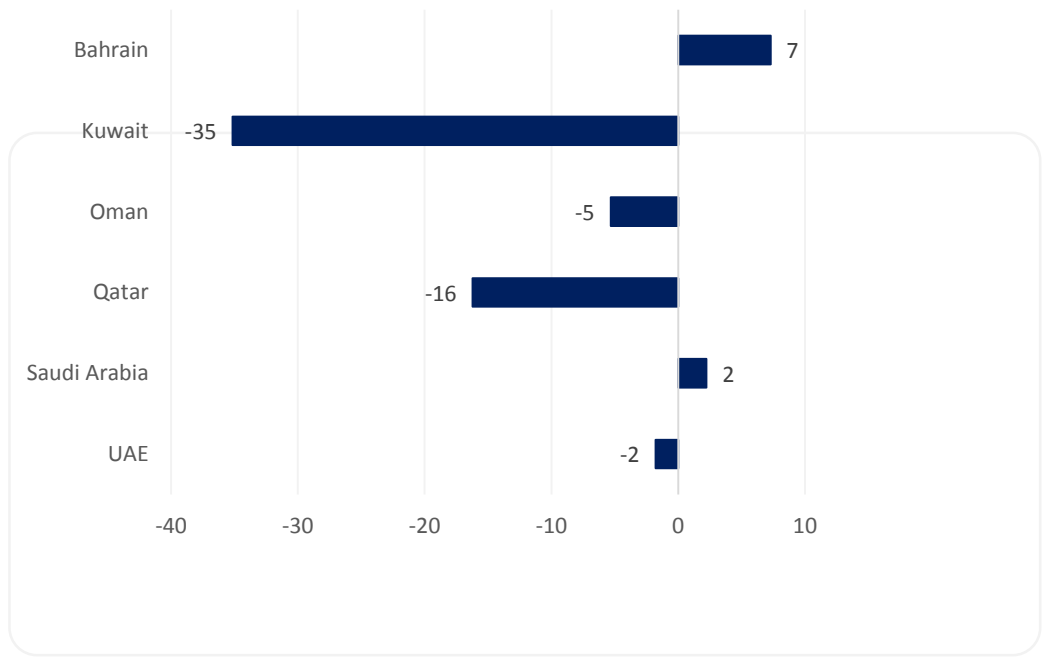
Source: Bloomberg, Emirates NBD Research



HIGHLIGHTS

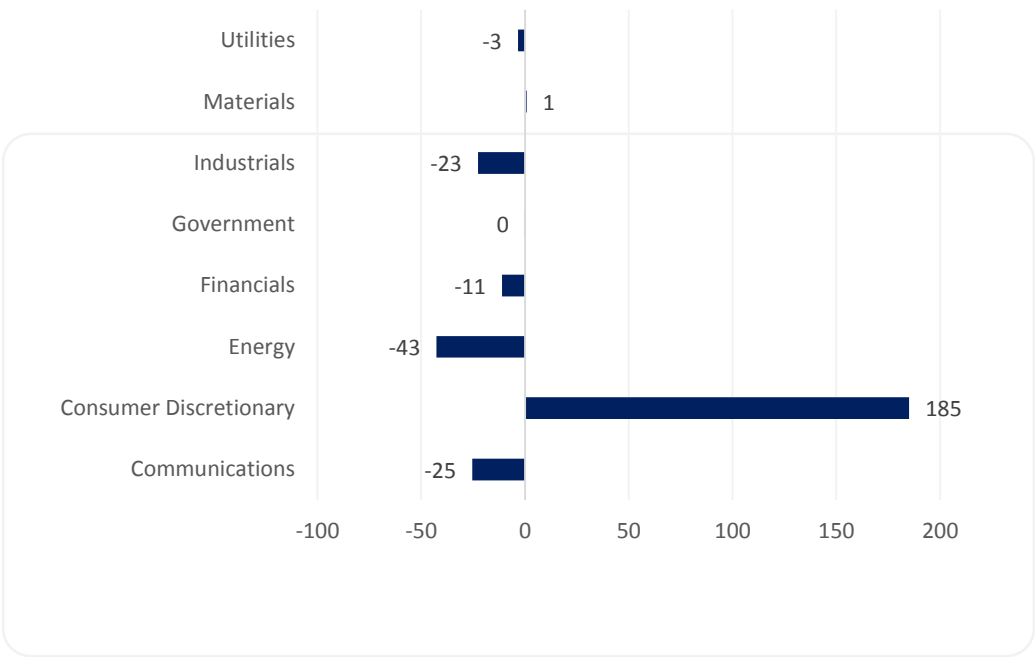
- Contrasting the wider trend, yield on Bahrain increased during the month, as the country plans to tap the bond market again - possibly in the second half of this year.
- Sector-wise, consumer discretionary underperformed due to pressure on bonds issued by EA Partners.

Country-wise performance – 1m yield change (bps)



Source: Bloomberg, Emirates NBD Research

Sector-wise performance – 1m yield change (bps)

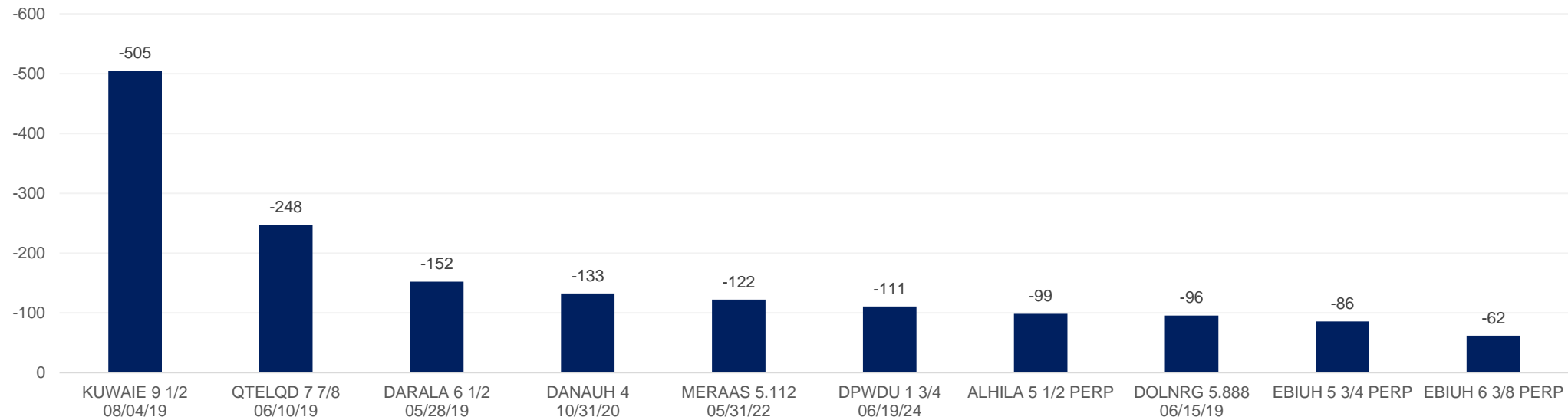


Source: Bloomberg, Emirates NBD Research



As is understandable in a falling interest rate environment, high yield bonds outperformed their IG counterparts. DP world benefited from new agreements with China to develop storage and export processing centres here. Kuwait Energy benefited from a rating upgrade after its acquisition by the United Energy Group. Al Hilal perp benefited from a merger with ADCB.

1m yield change (bps)



Source: Bloomberg, Emirates NBD Research

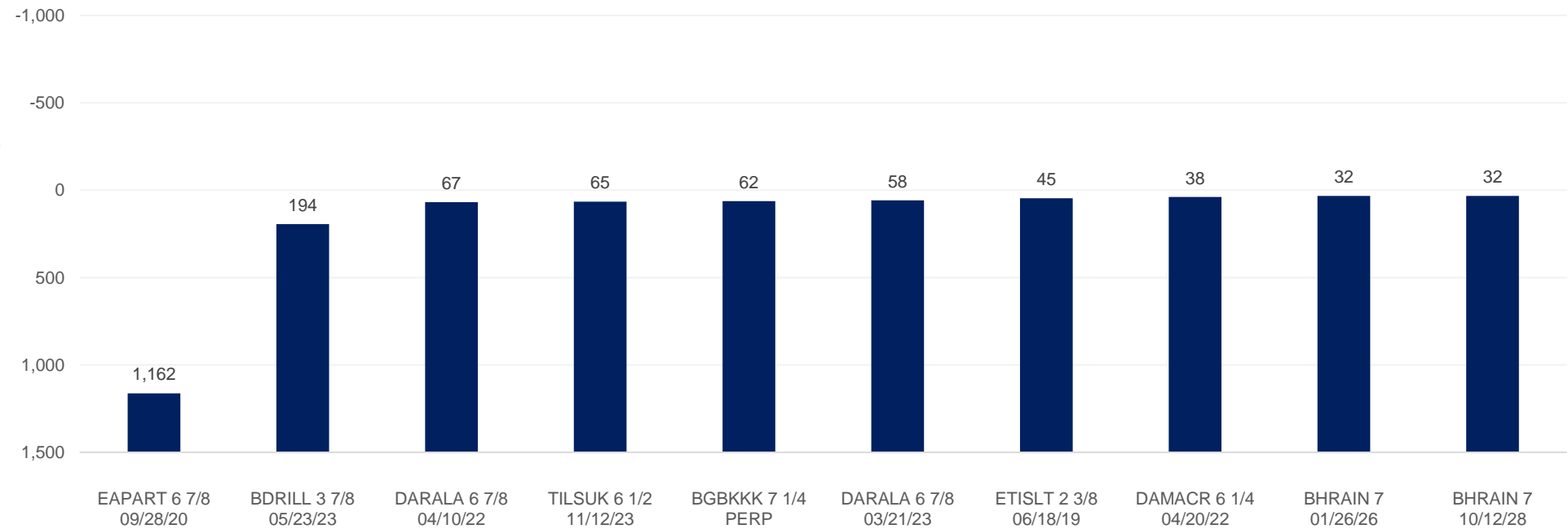
BOTTOM 10 PERFORMERS



Default at EA Partners naturally made it the worst performing bond during the month. Real estate names also remained under pressure.

Bahrain spreads widened after the sovereign announced intention to tap the bond market soon. Etisalat bond's underperformance was due to the pull-to-par effect.

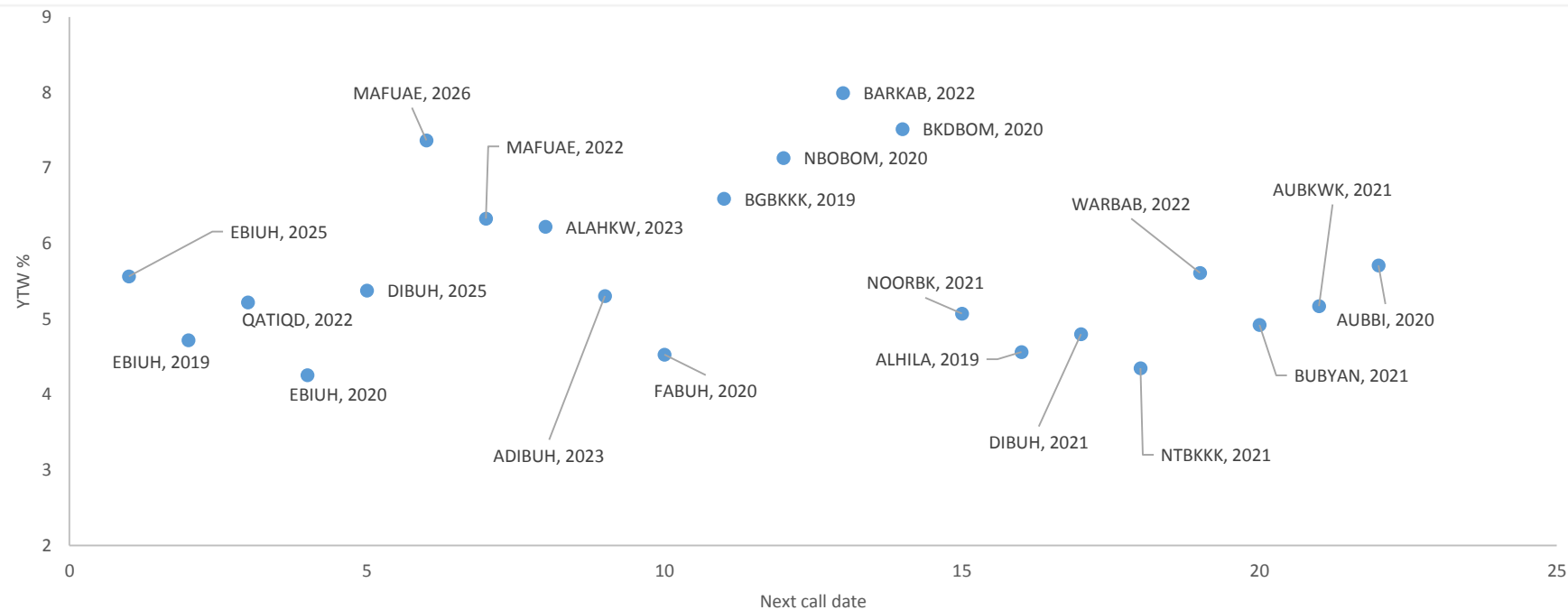
1m yield change (bps)



Source: Bloomberg, Emirates NBD Research

- GCC perpetual bonds are generally issued by the banks as Tier 1 capital.
- Given high capital ratios, the risk of perpetual bonds not being called on their first call dates is considered low.

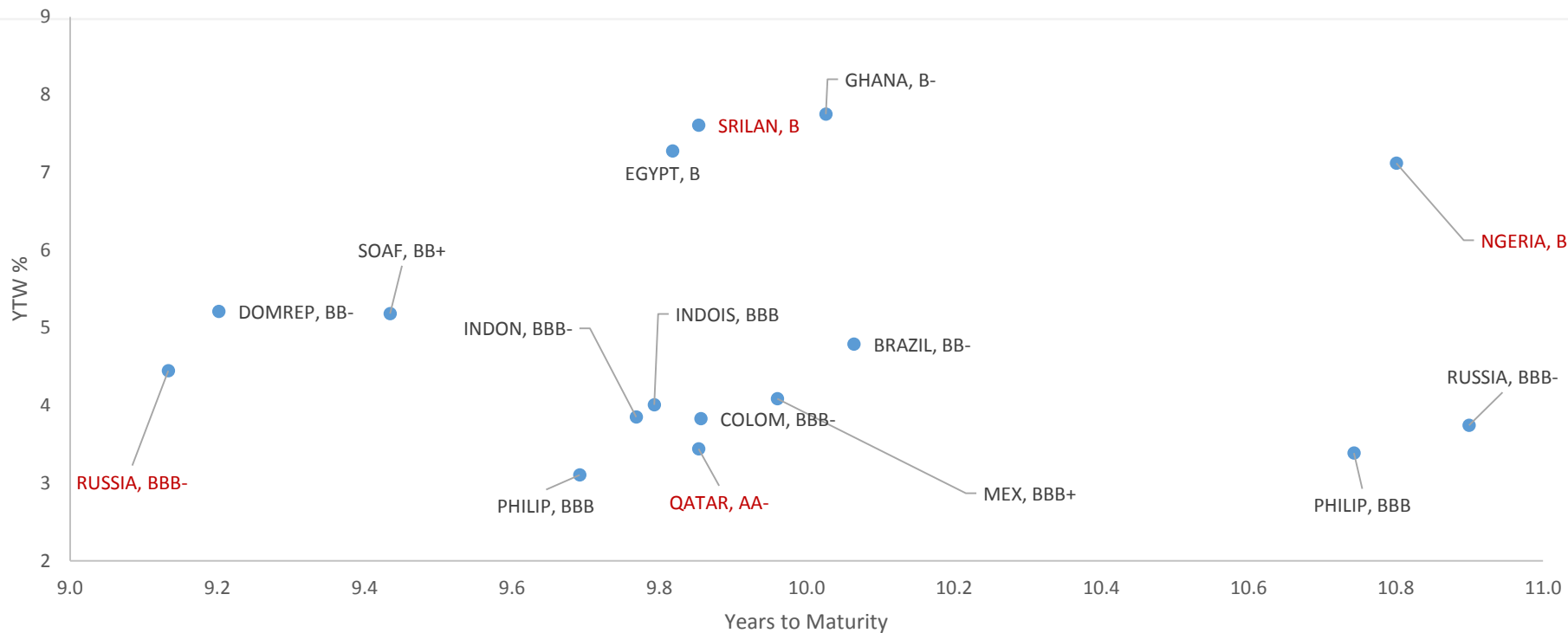
Perpetual bonds RV snapshot : Next call date vs yield to worst



Source: Bloomberg, Emirates NBD Research

In view of their higher credit ratings, strong government balance sheets and mostly positive current account surpluses, GCC sovereigns should trade tighter than their emerging market counterparts. However, current trading levels do not reflect this.

Sovereigns RV snapshot : Maturity vs yield to worst

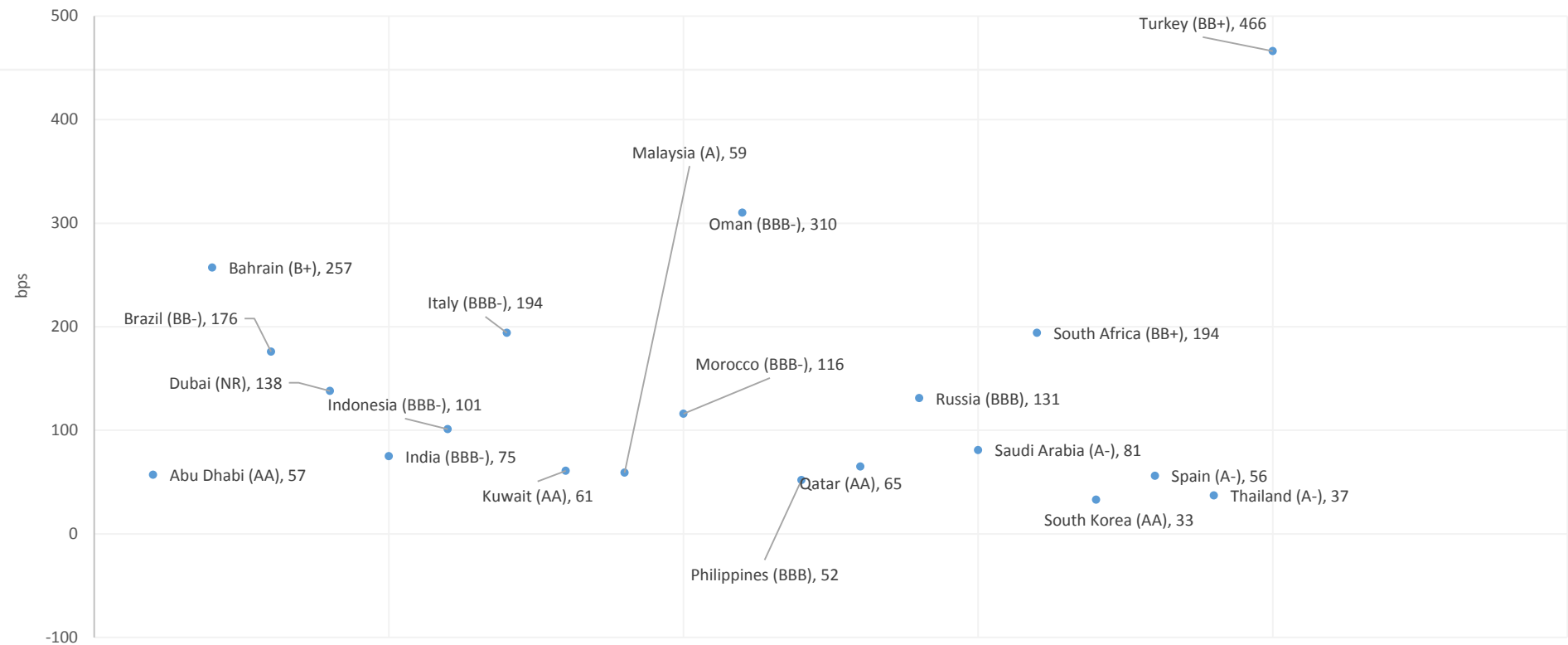


Source: Bloomberg, Emirates NBD Research



GCC sovereign CDS spreads appear cheap compared with similar rated counterparts.

Sovereigns RV snapshot based on 5yr CDS spreads of similar rated sovereigns

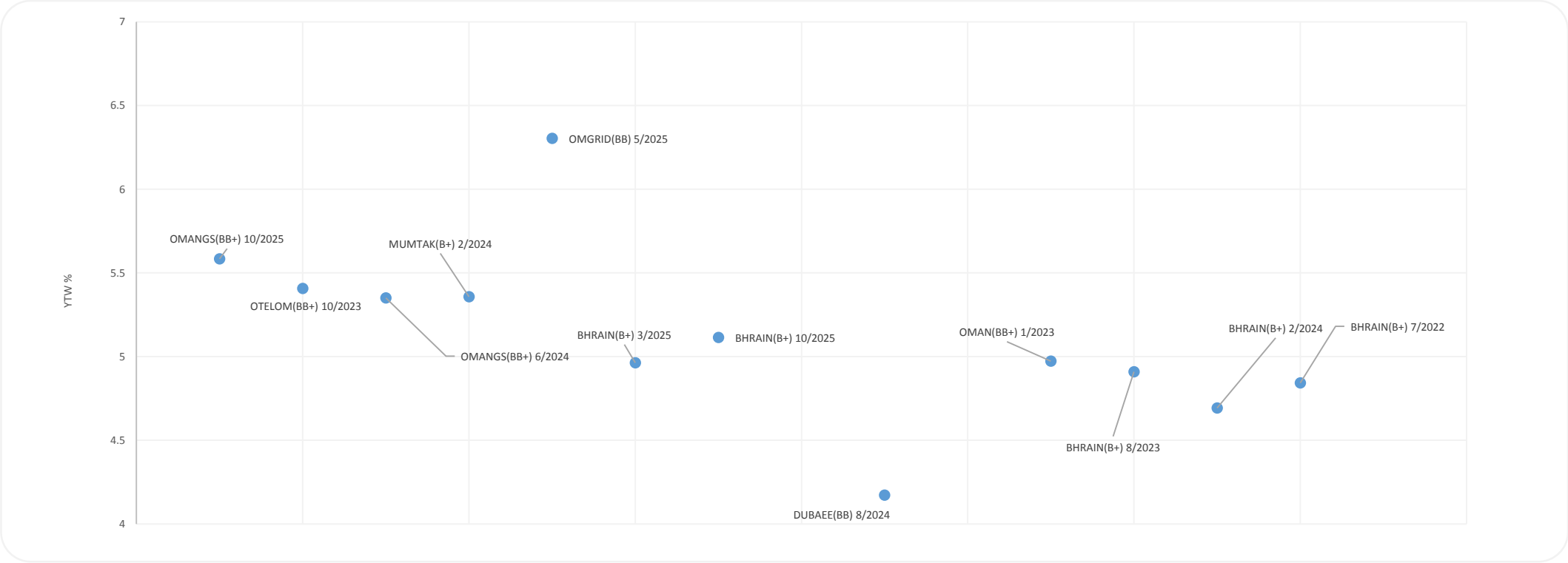


Source: Bloomberg, Emirates NBD Research



GCC HY is dominated by Bahrain and Oman sovereign bonds. Despite their weakening balance sheets, default risk for Oman and Bahrain is considered low in view of widespread expectations of support being available from their GCC neighbours if need be. Current trading spreads do not reflect this strength.

Corporate RV snapshot : Maturity vs yield to worst

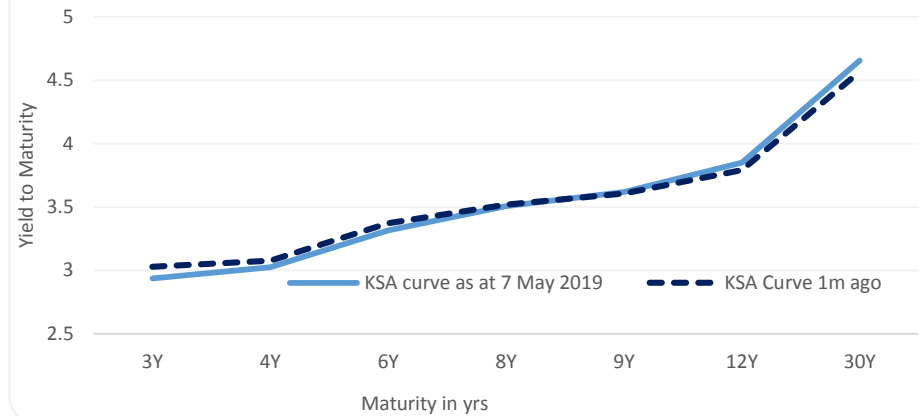


Source: Bloomberg, Emirates NBD Research

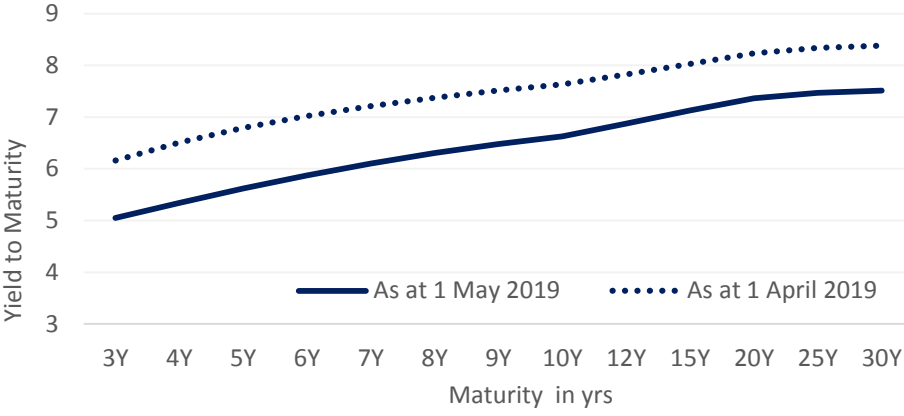
DOWNWARD SHIFT OF GCC SOVEREIGN CURVES



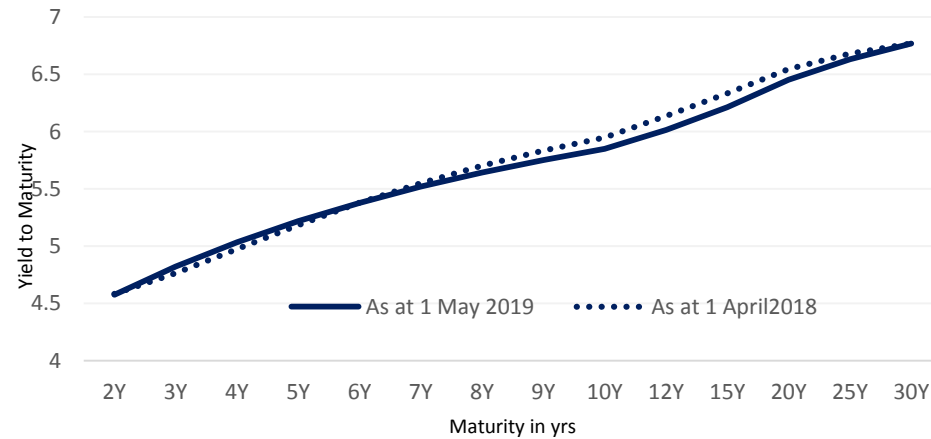
Saudi Curve



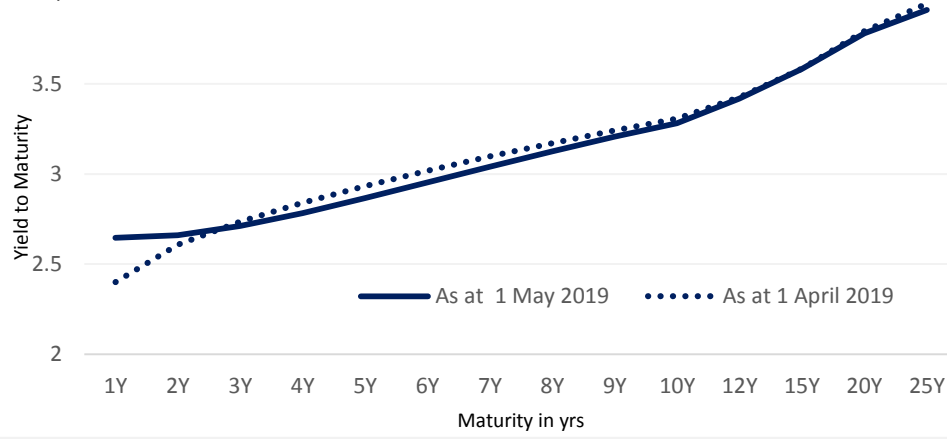
Oman Curve



Bahrain Curve



Abu Dhabi Curve



Source: Bloomberg, Emirates NBD Research



Circa \$16 billion worth of fixed rate USD redemptions are due in 2019.

Ticker	Maturity	Amt Out	Ticker	Maturity	Amt Out
DARALA	5/28/2019	400	QATAR	4/9/2019	1000
KUWAIE	8/4/2019	250	KWIPKK	2/5/2019	233
ADGB	4/8/2019	1500	QTELQD	6/10/2019	600
RAKBNK	6/24/2019	722	MUBAUH	5/6/2019	500
FABUH	8/13/2019	750	HSBC	10/1/2019	400
DAMACR	4/9/2019	271	DOLNRG	6/15/2019	205
MAFUAE	7/5/2019	500	EMAAR	7/18/2019	500
ETISLT	6/18/2019	900	JAFZSK	6/19/2019	237
DICUH	2/20/2019	300	RASGAS	9/30/2019	615
NBOBOM	10/7/2019	300	TAQAUH	9/16/2019	500
EBIUH	11/19/2019	1000	ADCBUH	3/4/2019	750
ADCBUH	9/16/2019	600	FABUH	1/14/2019	500
COMQAT	11/18/2019	600	CBQKQD	4/22/2019	150
FLYDU	11/26/2019	500	COMQAT	4/25/2019	155
COMQAT	6/24/2019	750			

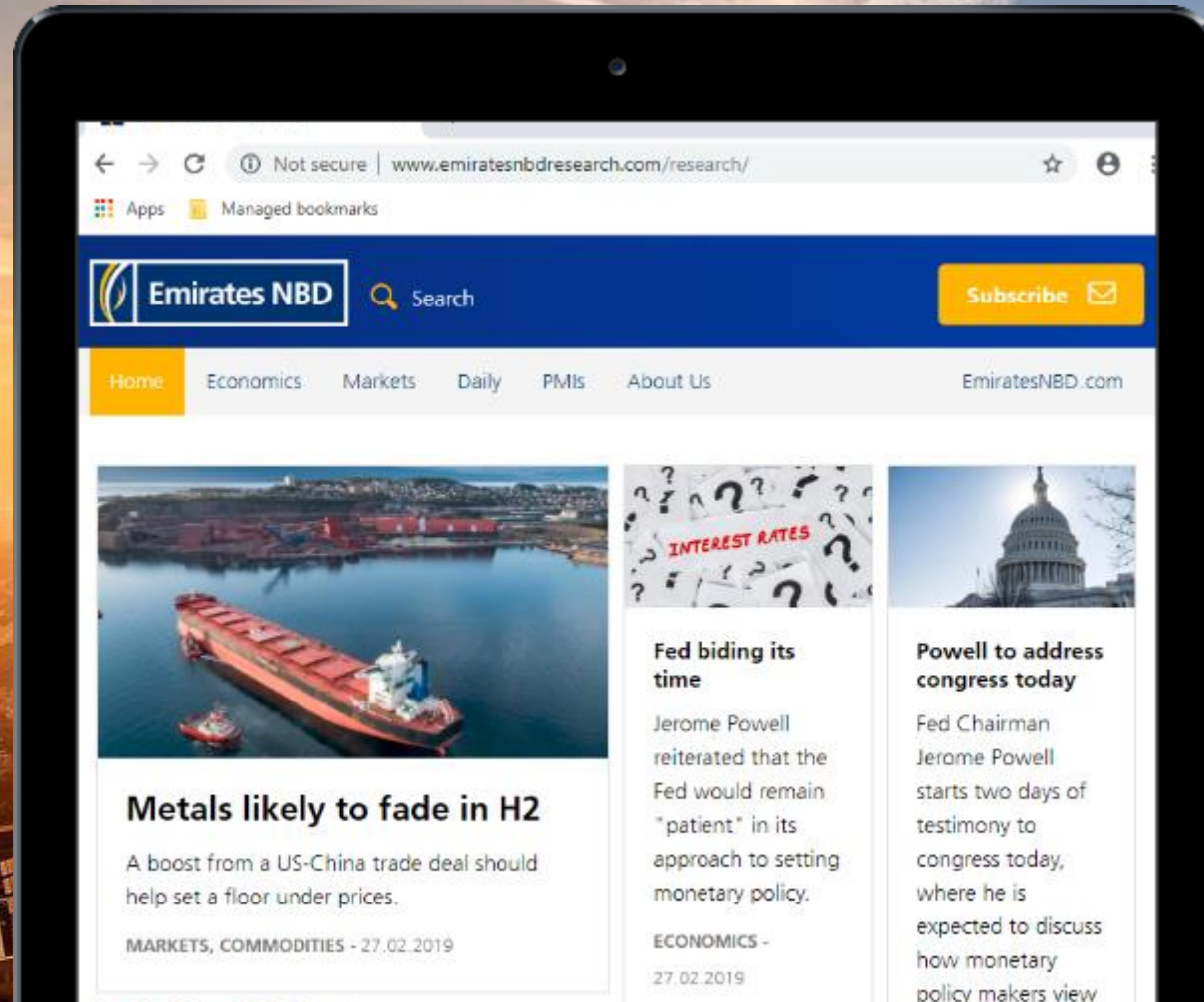
Source: Bloomberg, Emirates NBD Research



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