



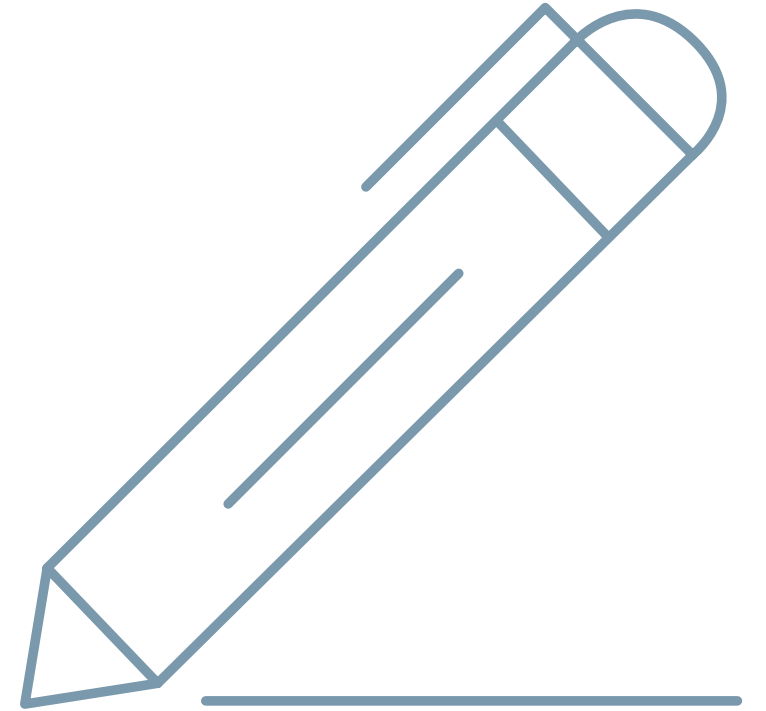
GCC Bonds Monitor - April 2019

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Head of Fixed Income Research





GCC bonds monitor

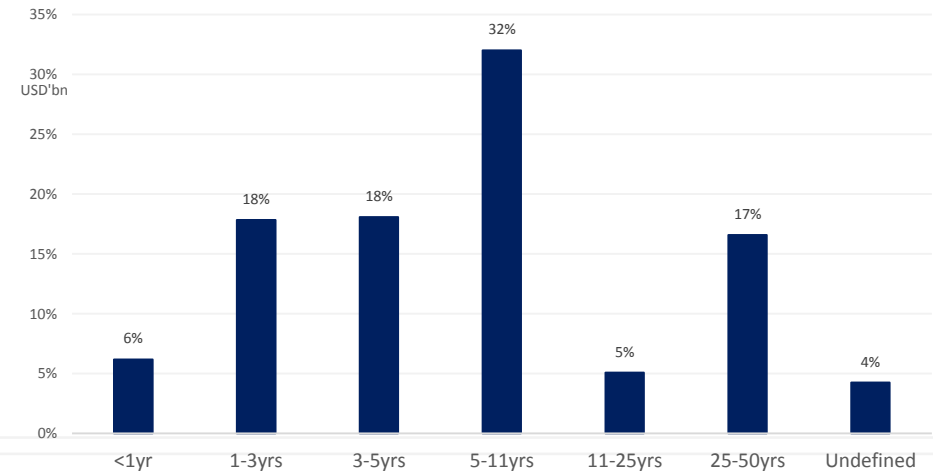




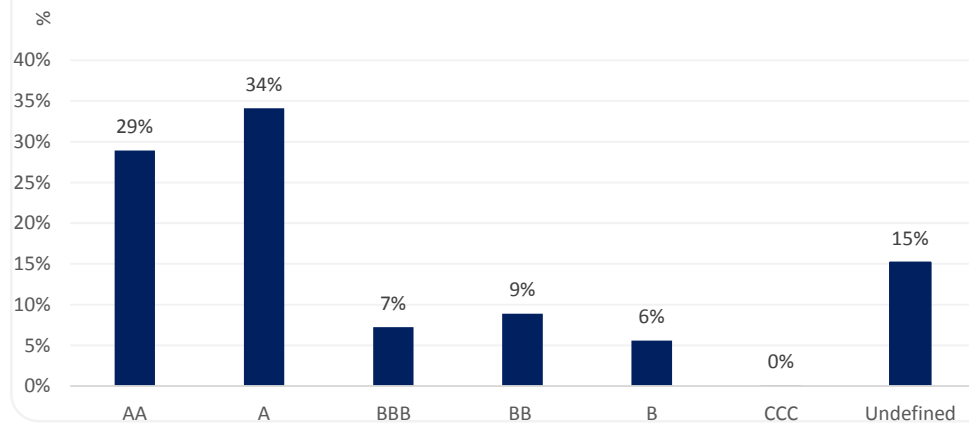
HIGHLIGHTS

- As at the end of Q1, total outstanding in the GCC fixed rate USD bond universe was circa \$314 billion which has increased from around \$180 billion in 2014
- About 42% of outstanding bonds matured in less than five years and 74% in less than 11 years. Circa 23% of the total was in sukuk format.
- Circa 85% is rated investment grade (assuming Dubai Inc in the BBB range).
- UAE, Qatar and Saudi accounted for 46%, 17% and 22% of the total market respectively with Bahrain only taking 6%.

GCC Universe Maturity Profile

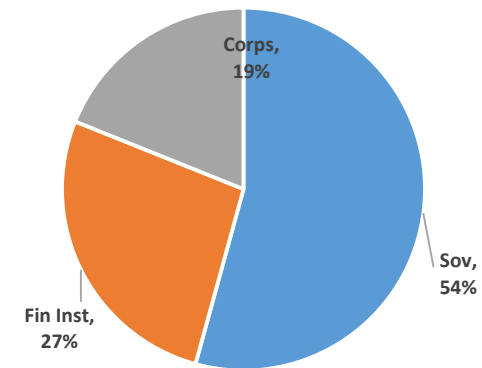


Credit Rating Breakup



Source: Bloomberg, Emirates NBD Research

Sector Breakup



Source: Bloomberg, Emirates NBD Research



- GCC primary market was healthy with total new issuance in dollar denominated fixed rate bonds exceeding the USD 31 billion mark. Sukuk issues lagged steam with only \$5 billion of new issues in Q1.
- Oil prices stabilizing sustainably above the USD 60 / p b mark are providing a constructive backdrop for GCC bonds.
- Oman was downgraded by Moody's from Baa3 to Ba1/negative, placing it firmly in the high yield category.
- 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 36bps from 212 bps to 176bps.
- Sector diversification is on the path to improve with emergence of Al Marai and Aramco in the market.
- Bond tenures continued to increase as KSA priced the first 2050 maturity bond in the region in January this year.
- First issuance under the new debt law in the UAE was done by the Emirates Development Bank that priced a \$750 million Reg S transaction and intends to become a regular issuer in hard as well as local currency denominated issues.



HIGHLIGHTS

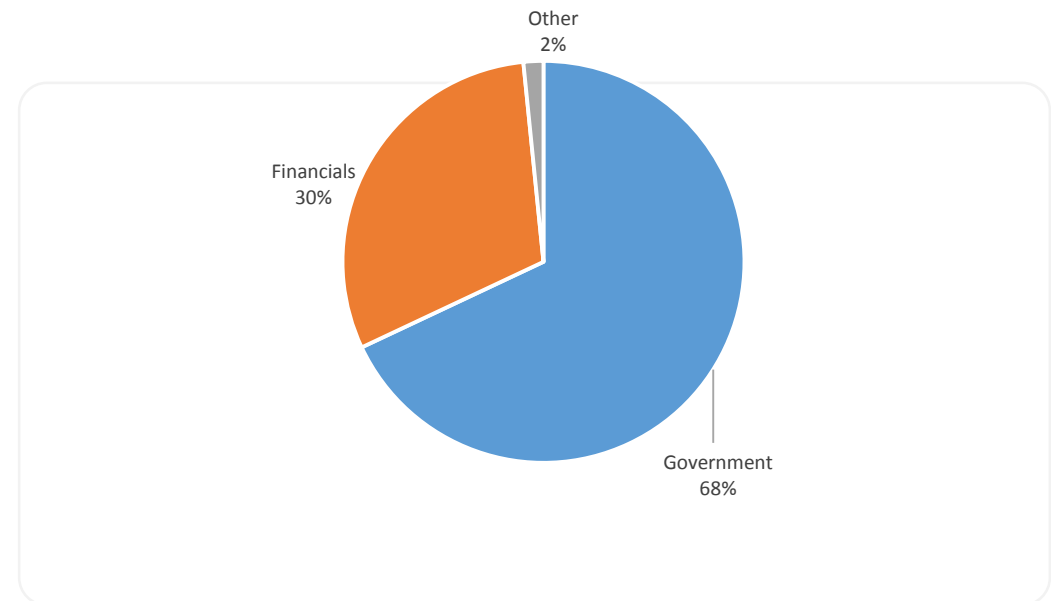
- New supply has been abundant so far and augurs well to meet our target of between \$70 billion to \$90 billion in new issues this year as sovereign budget deficits are set to increase amid lower oil prices compared with 2018, which in turn will probably mostly be funded by debt.

New supply : USD fixed rate GCC bonds



Source: Bloomberg, Emirates NBD Research

Sovereign issuance has picked up pace again



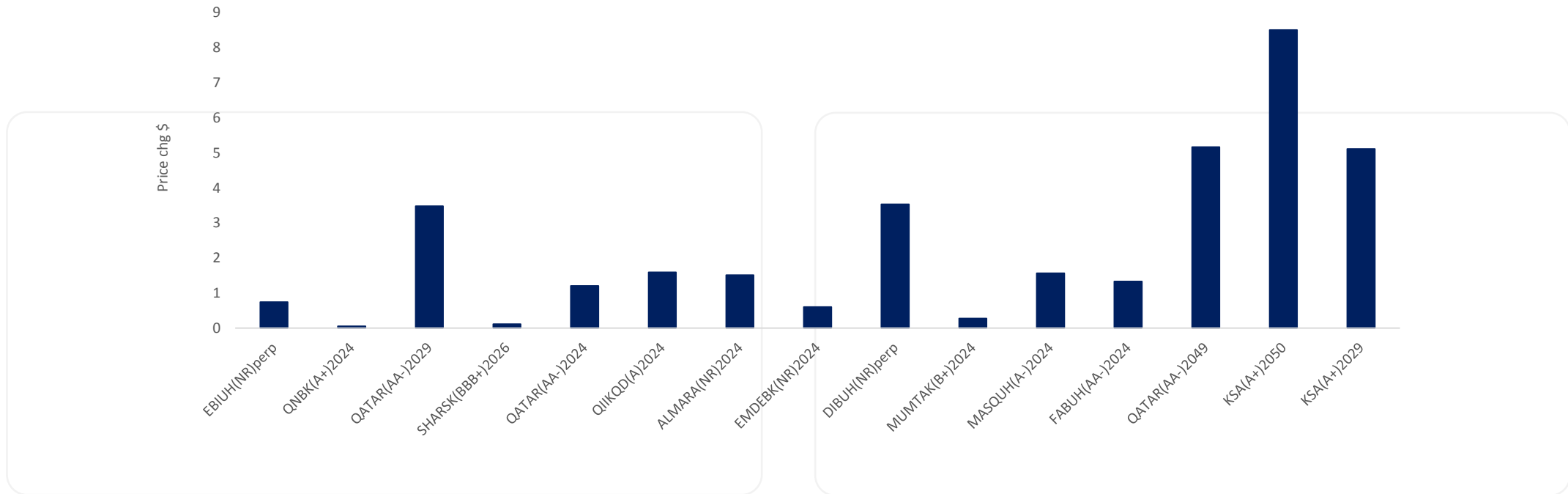
Source: Bloomberg, Emirates NBD Research



HIGHLIGHTS

- New issues have generally performed well in the secondary market although this is partly reflective of tightening benchmark yield curves.

YTD Price Change for new bonds



Source: Bloomberg, Emirates NBD Research

RECENT CREDIT RATING CHANGES



Oman was the most high profile downgrade and rating on Aramco was the most high profile positive event of the quarter.

Company Name	Date	Agency	Curr Rtg	Last Rtg	Company Name	Date	Agency	Curr Rtg	Last Rtg
Al Masraf	04/01/2019	Fitch	A		Bank Dhofar SAOG	03/21/2019	Fitch	BB	BB+ *-
Islamic Corp for Development	02/22/2019	S&P	A	A+	Ahli Bank SAOG	03/21/2019	Fitch	BB	BB+ *-
Saudi Arabian Oil Co	03/31/2019	Fitch	A+		DAMAC	02/18/2019	S&P	BB-	BB
Saudi Arabian Oil Co	04/01/2019	Moody's	A1		DAMAC	02/18/2019	S&P	BB-	BB
Islamic Corp for the Development	03/04/2019	Moody's	A2	Aa3 *-	Bank Muscat SAOG	03/21/2019	Fitch	BB+	BBB- *-
Abu Dhabi National Oil Co	02/19/2019	Fitch	AA		Almarai Co JSC	02/14/2019	S&P	BBB-	
Arab Inv & Export Credit Guar	03/28/2019	S&P	AA-	AA	Ahli United Bank BSC	02/14/2019	S&P	BBB *+	BBB
HSBC Bank Middle East Ltd	03/07/2019	Fitch	AA- *-	AA-	Oman Electricity Trans	03/12/2019	Moody's	WR	Baa3
Sultanate of Oman	03/05/2019	Moody's	Ba1	Baa3	Oman Telecomm	03/12/2019	Moody's	WR	Baa3
Almarai Co JSC	02/14/2019	Moody's	Baa3		Mazoon Electricity Co SAOC	03/12/2019	Moody's	WR	Baa3
National Bank of Oman SAOG	03/21/2019	Fitch	BB	BB+ *-	IPIC	03/07/2019	Moody's	WR	Aa2

Source: Bloomberg, Emirates NBD Research

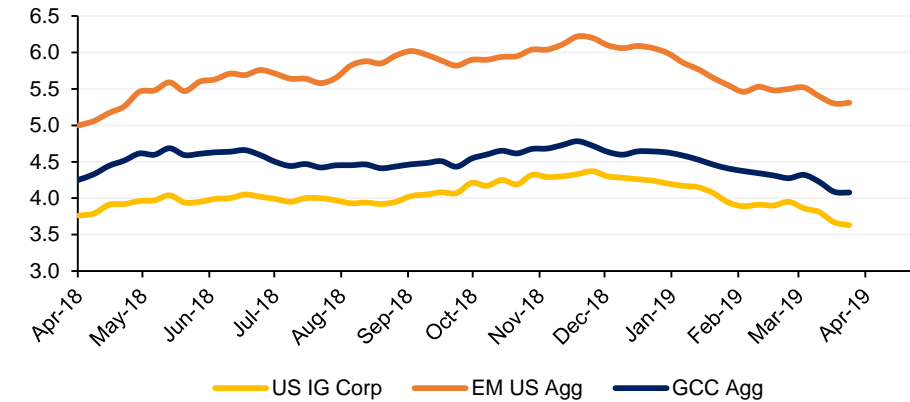
GCC BONDS ARE CURRENTLY UNDERPERFORMING THEIR EM PEERS



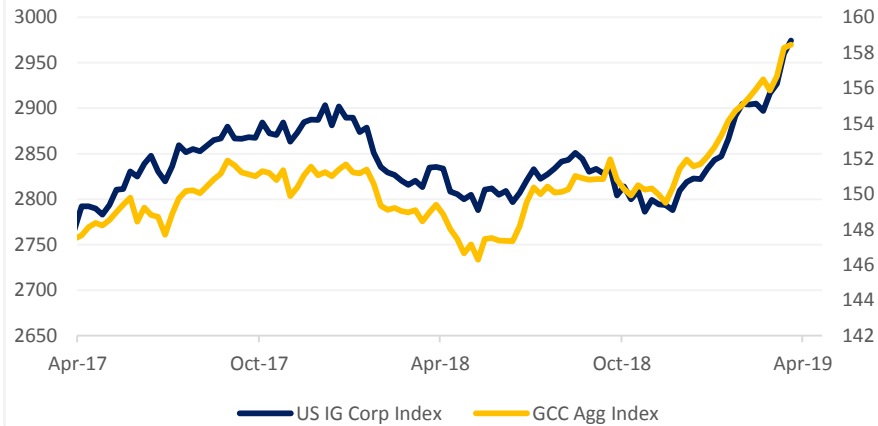
HIGHLIGHTS

- In Q1, yield on Bloomberg Barclays GCC bond index tightened by 56bps to 4.08% compared with 75bps tightening in the emerging market index to 5.31% and 61 bps tightening in the US IG corp index to 3.63%.
- This is partly as a result of pressure on Oman sovereign and GRE bonds which came under pressure after Moody's downgraded its rating into the junk category.
- Also partial default at EA Partners caused substantial widening of high yield credit spreads.

Global Bond Indices YTW %

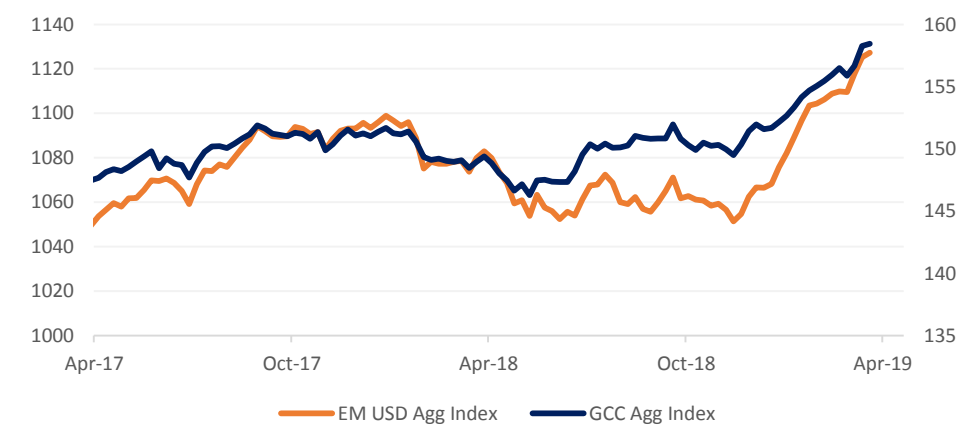


Total return: GCC vs US IG Corp



Source: Bloomberg, Emirates NBD Research

Total return : GCC vs EM USD bonds



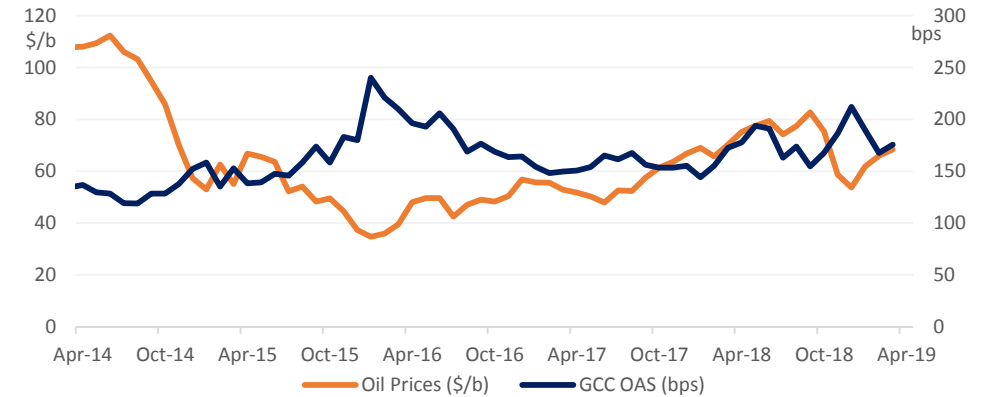
Source: Bloomberg, Emirates NBD Research



HIGHLIGHTS

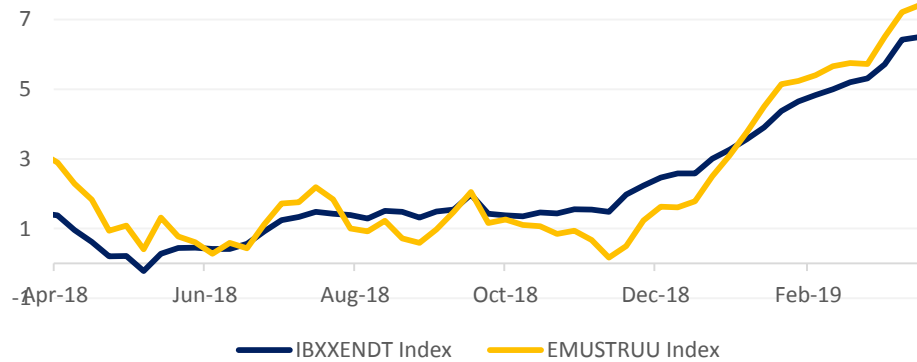
- Total return on Emirates NBD Markit iBoxx sukuk index was a small gain of +0.26% last year compared with a loss of -2.5% on EM bond index. YTD performance of the sukuk universe still remains above that of conventional bonds, however this could also be reflective of the average higher credit ratings and shorter duration on sukuk portfolios compared with conventional counterparts.
- The strong correlation of GCC bonds' credit spreads with oil prices frequently gets overshadowed by other issues such as political concerns, EM capital flows, movements in the UST benchmark yield curve etc.
- Duration weighted return on GCC bonds compare favorably with that on US and European IG corps. Though GCC economies are categorized under the EM universe, they have high per capita income and significantly higher credit ratings than most other EM economies.

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	2.93	44	2.56
Euro Agg	0.51	80	0.4
EM US Agg	5.31	292	5.45
GCC IG	3.77	136	4.24
GCC All	4.08	176	4.54

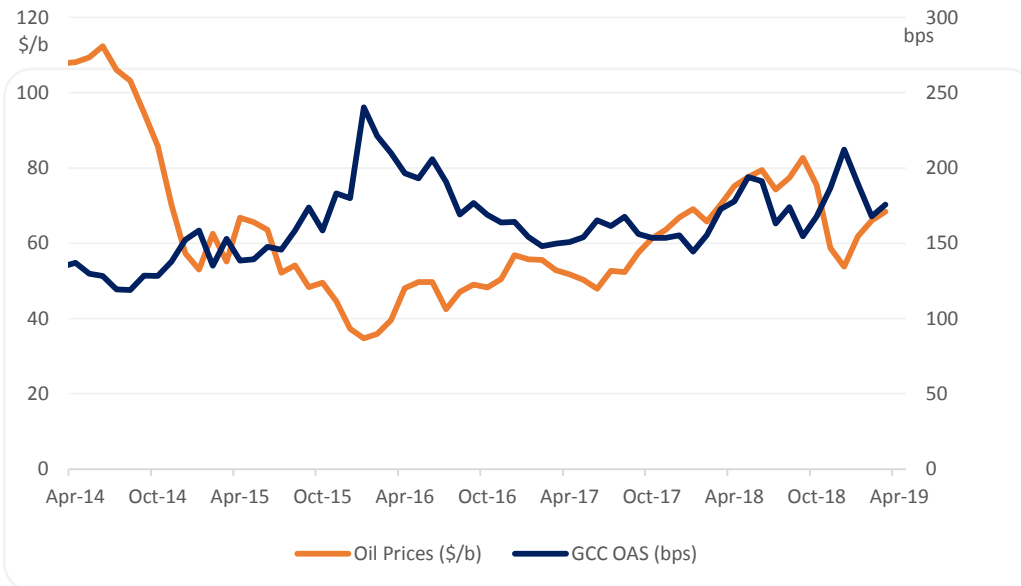
Source: Bloomberg, Emirates NBD Research



HIGHLIGHTS

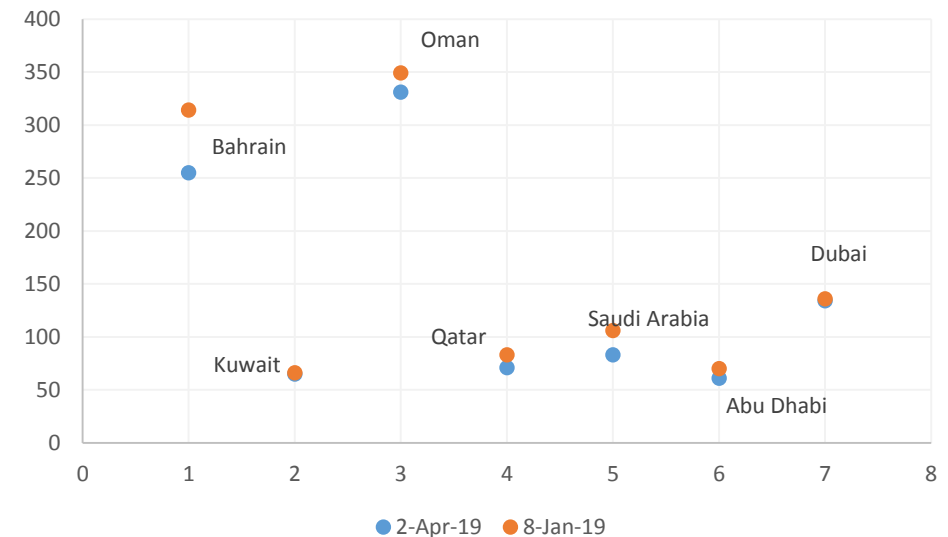
- Yield on GCC bonds fell by 56bps to 4.08% in Q1 as Fed adopted a patient stand on interest rate hikes and the UST yield curve shifted downwards in response to prevailing dovishness in markets.
- However GCC credit spreads were more range-bound with bias for contraction. GCC sovereign CDS spreads have declined with highest contraction in high yield sovereign i.e. Oman and Bahrain.

GCC bonds OAS vs oil prices



Source: Bloomberg, Emirates NBD Research

Sovereign CDS spreads remained range-bound



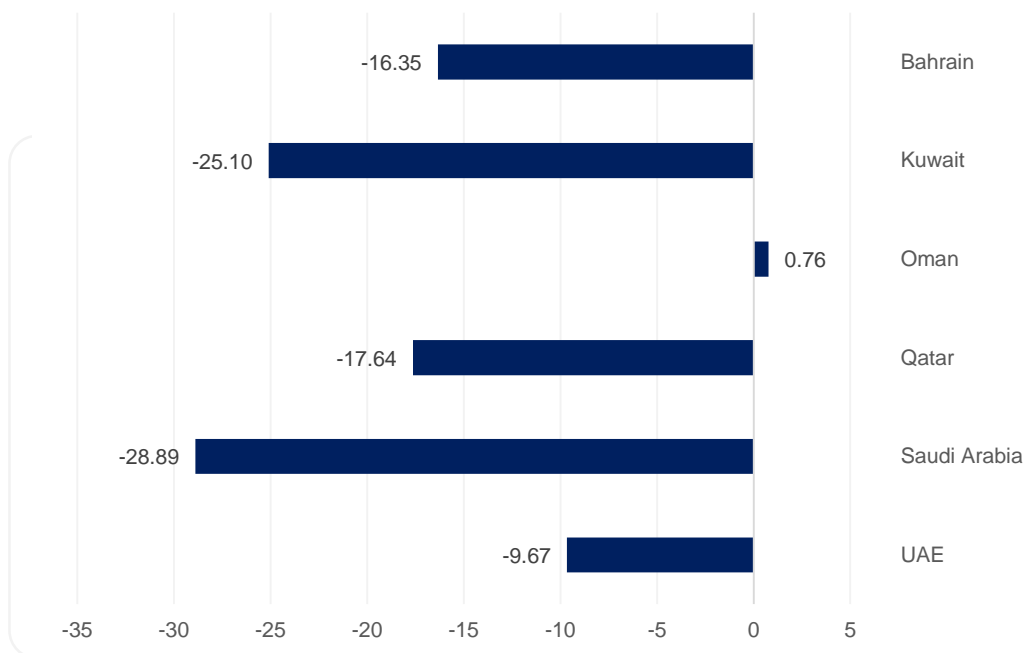
Source: Bloomberg, Emirates NBD Research



HIGHLIGHTS

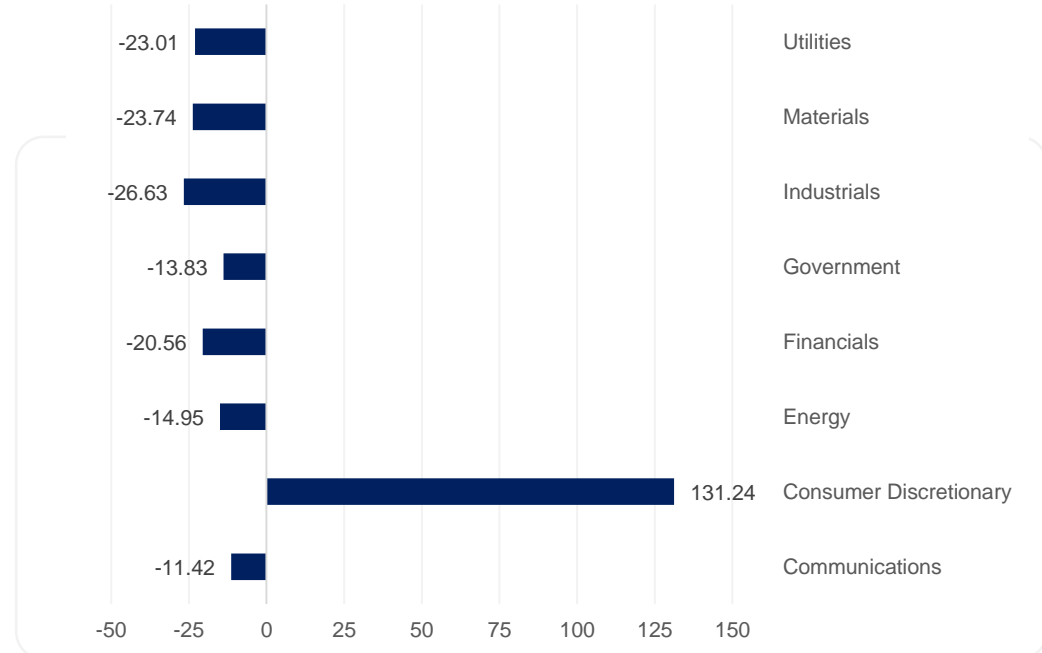
- Contrasting the wider trend, yield on Omani bonds increased during the month, mainly in response to the rating downgrade of Oman sovereign and related GREs by Moody's from Baa3 to Ba1/negative.
- Sector-wise, consumer discretionary underperformed due to pressure on bonds issued by EA Partners.

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



Source: Bloomberg, Emirates NBD Research

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



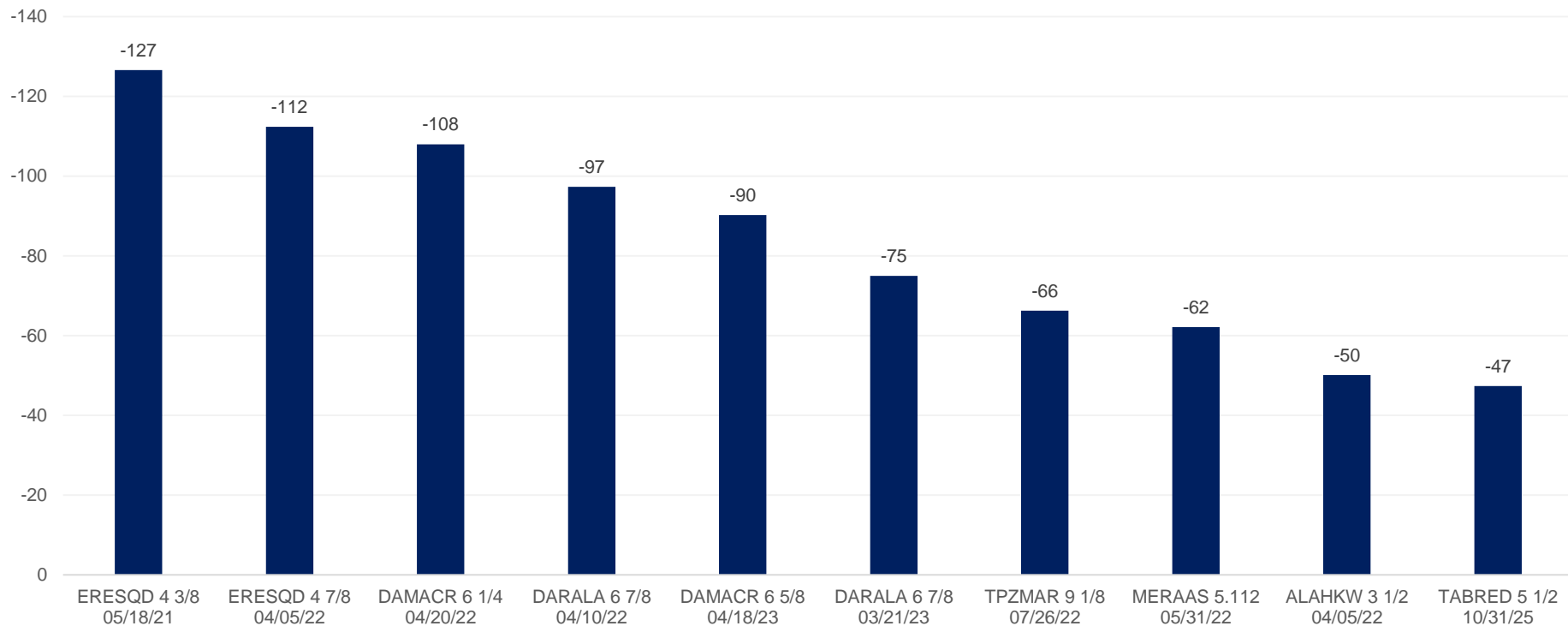
Source: Bloomberg, Emirates NBD Research

TOP 10 PERFORMERS



As is understandable in a falling interest rate environment, high yield bonds outperformed their IG counterparts. Consequently most names in the top 10 list are from the high yield segment.

1m yield change (bps)



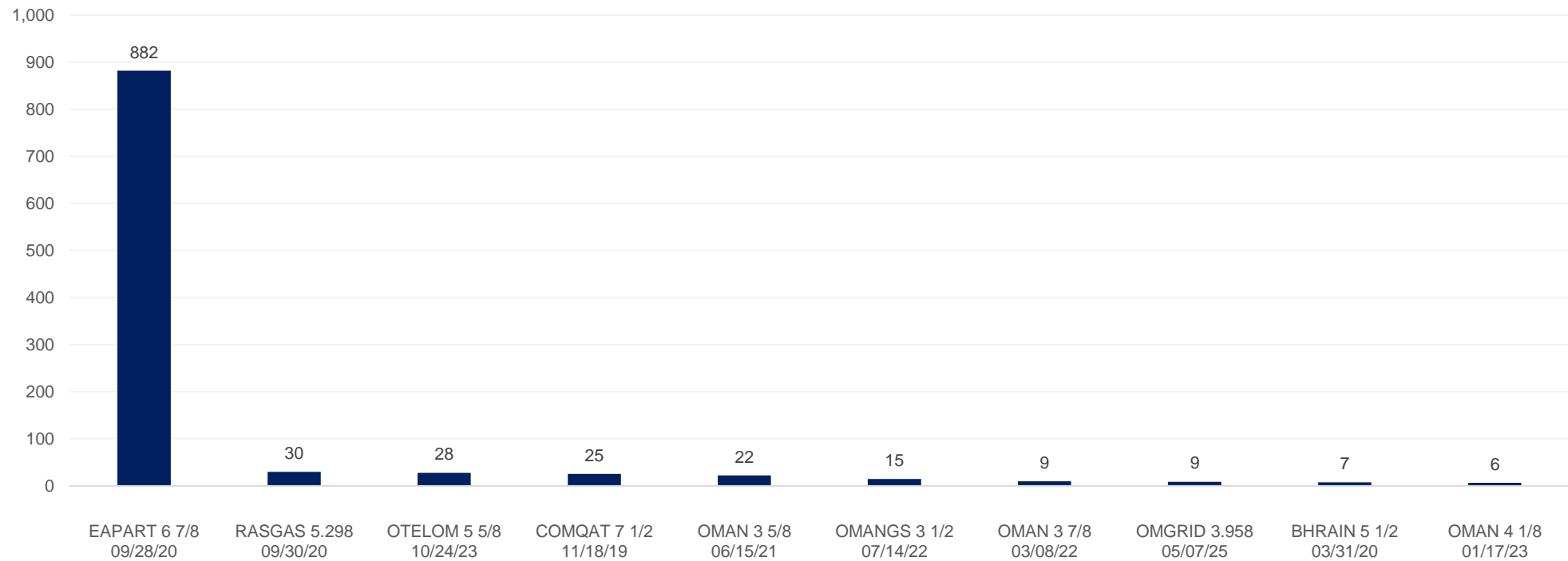
Source: Bloomberg, Emirates NBD Research

BOTTOM 10 PERFORMERS



Default at EA Partners naturally made it the worst performing issuer during the month. Also sovereign rating downgrade of Oman saw most of its bonds joining the bottom 10 performers list.

1m yield change (bps)

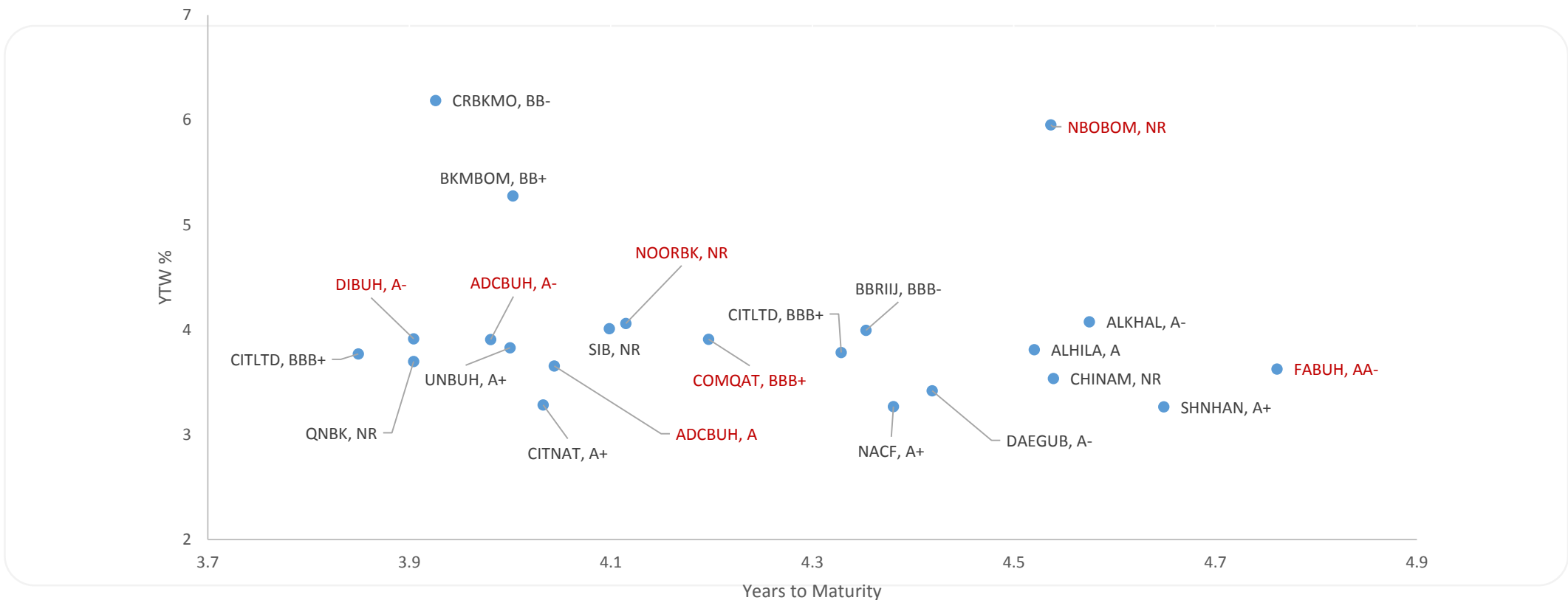


Source: Bloomberg, Emirates NBD Research



- GCC banks trade cheap relative to their other EM peers.
- 'A' category rated GCC banks trade at yields of over 4% compared with similar rated Chinese and Korean banks trading at yield below 4%.

Banks RV snapshot : Maturity vs yield to worst

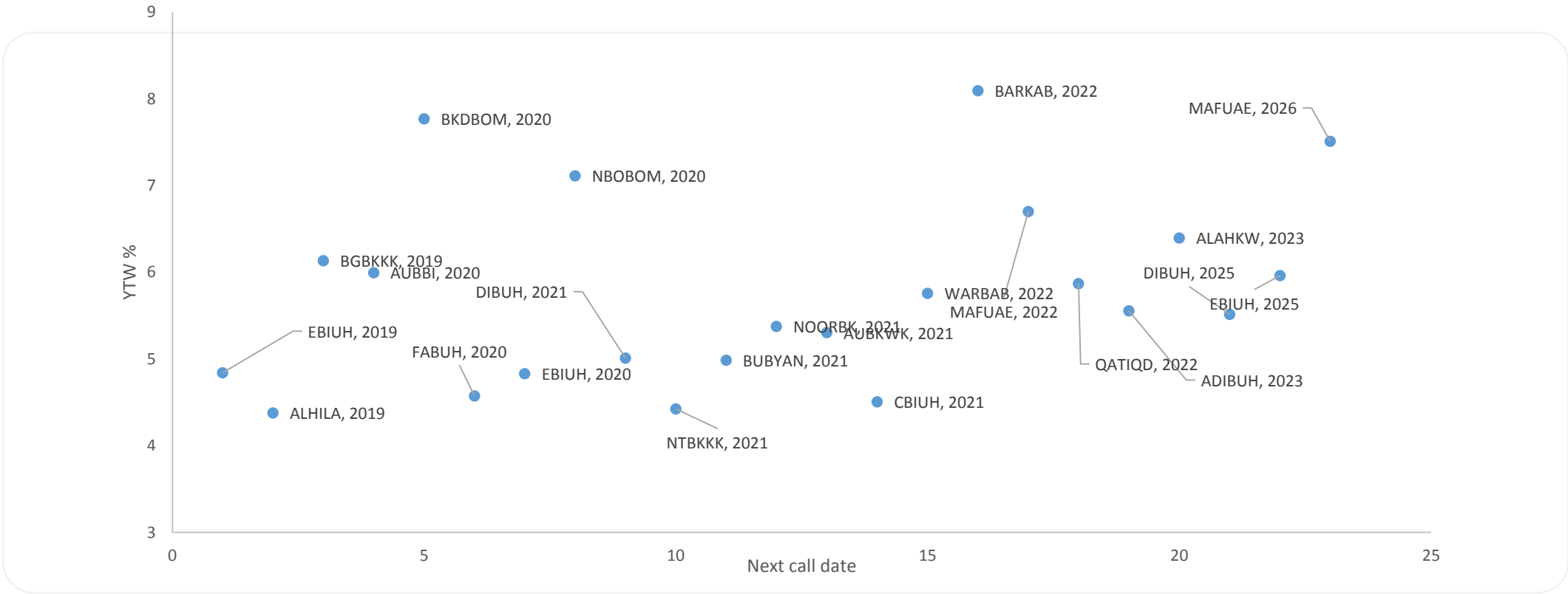


Source: Bloomberg, Emirates NBD Research



- 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

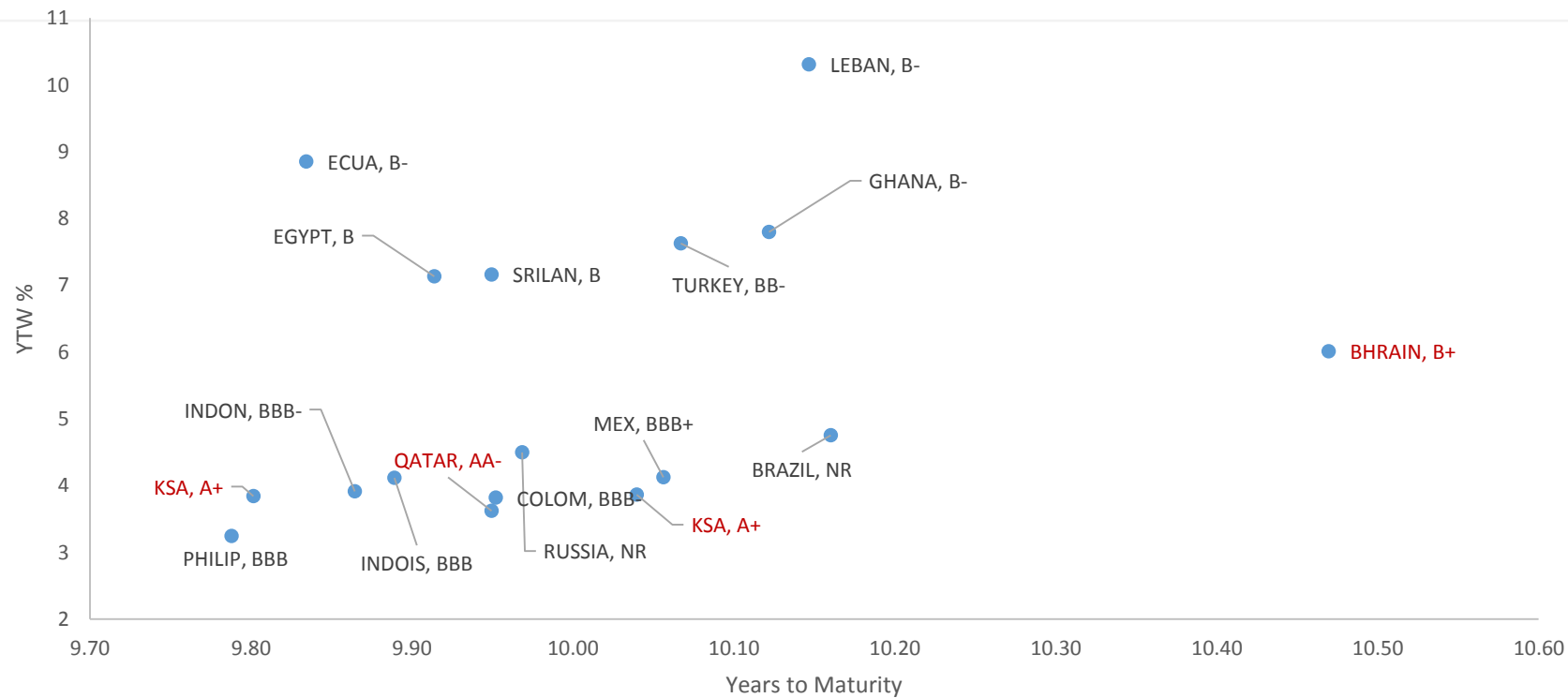


Source: Bloomberg, Emirates NBD Research



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

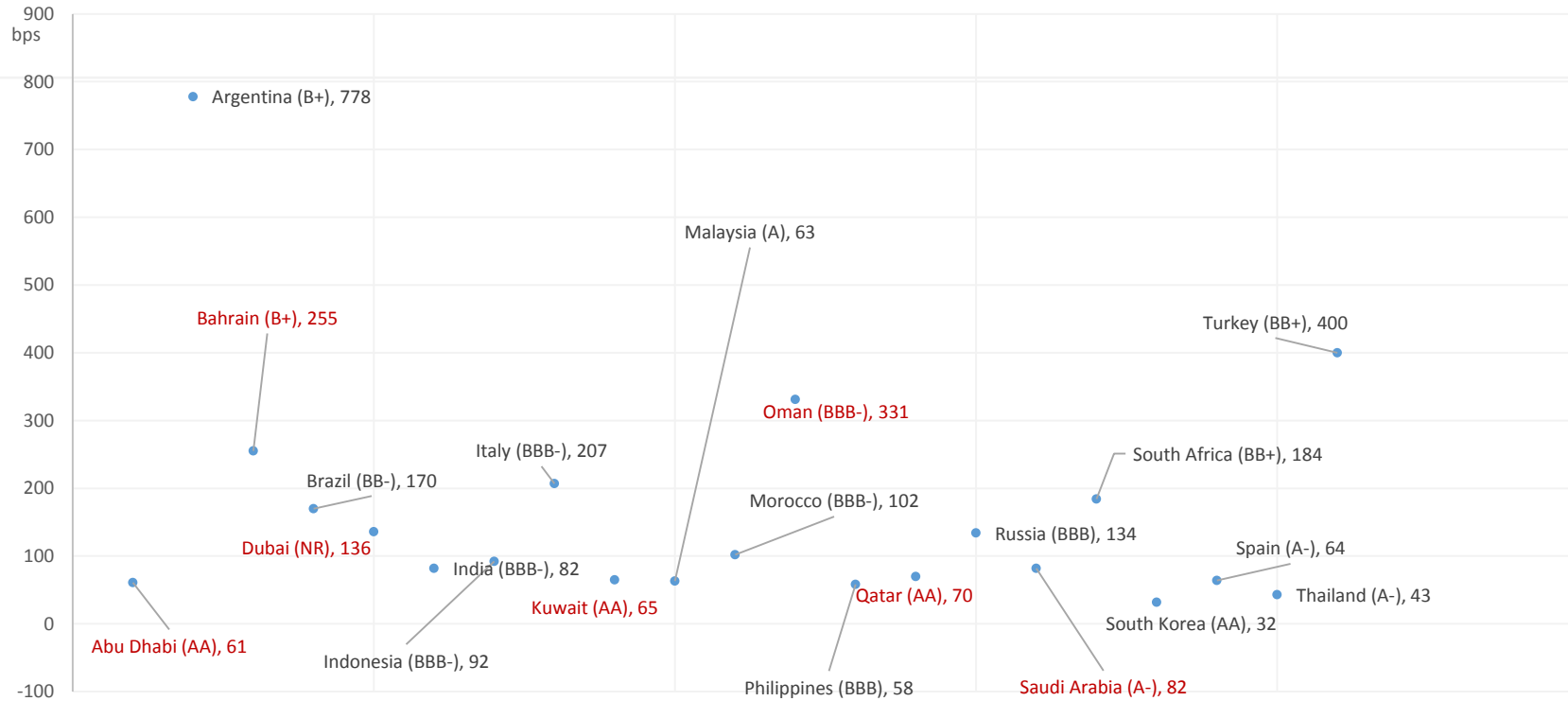


Source: Bloomberg, Emirates NBD Research



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

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

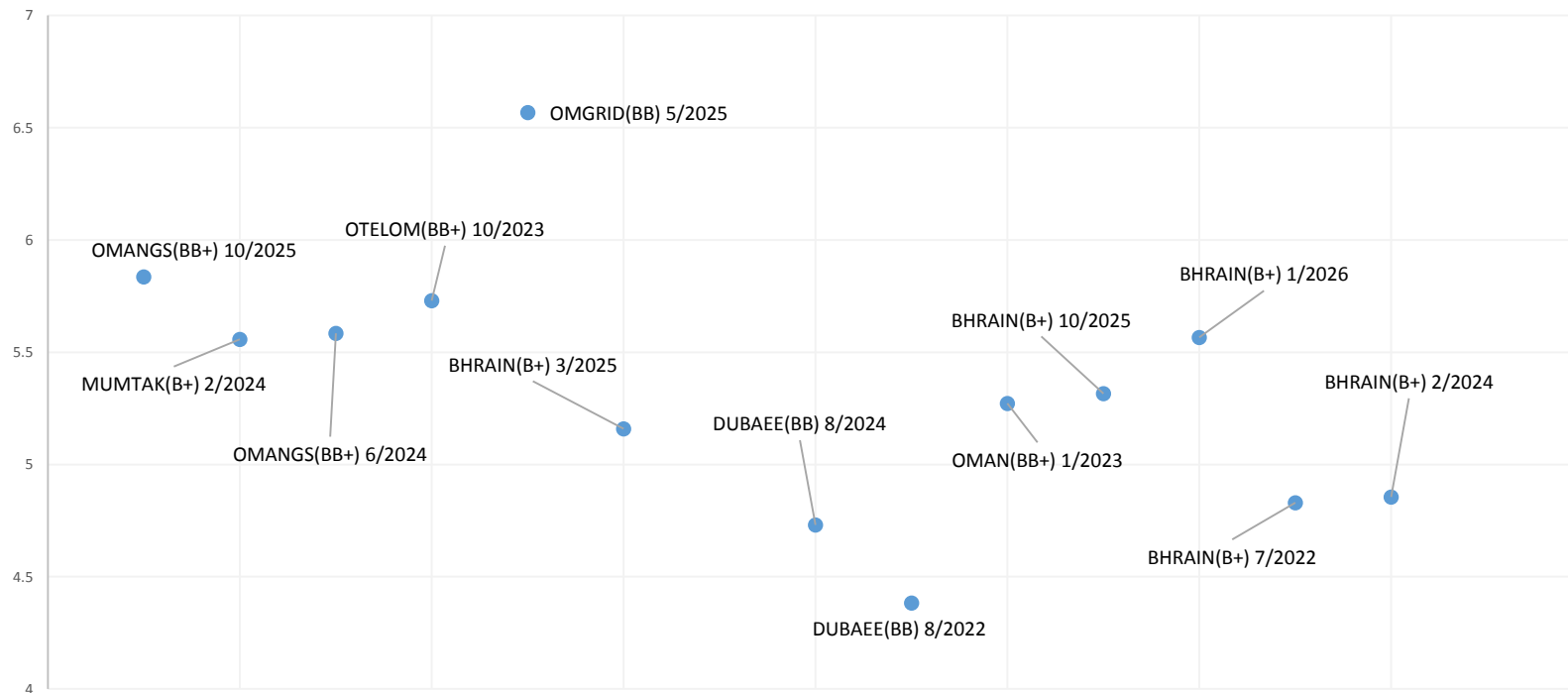


Source: Bloomberg, Emirates NBD Research



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

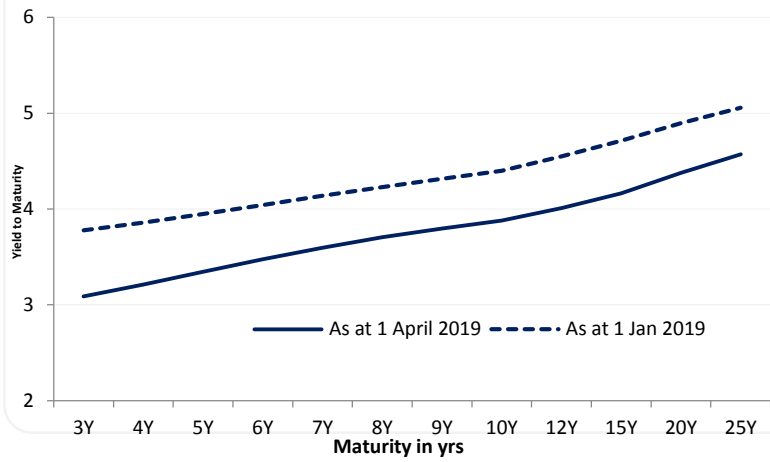


Source: Bloomberg, Emirates NBD Research

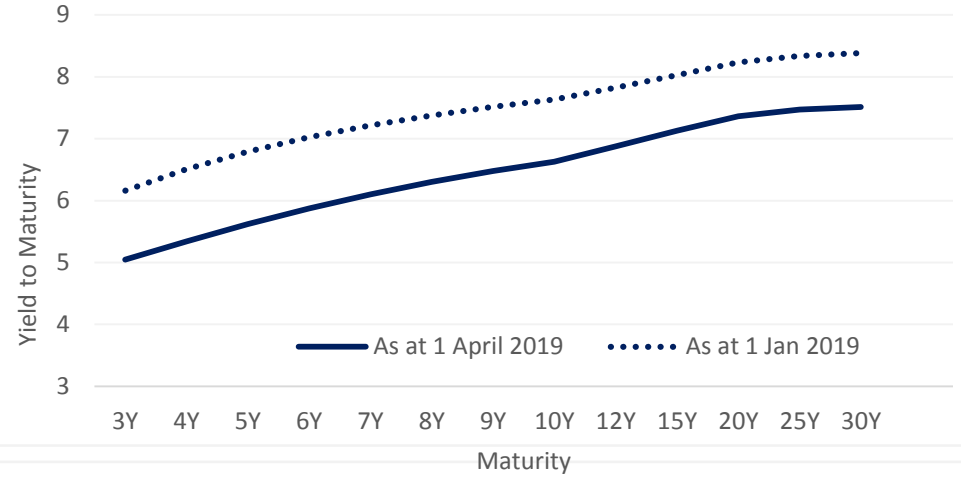
DOWNWARD SHIFT OF GCC SOVEREIGN CURVES



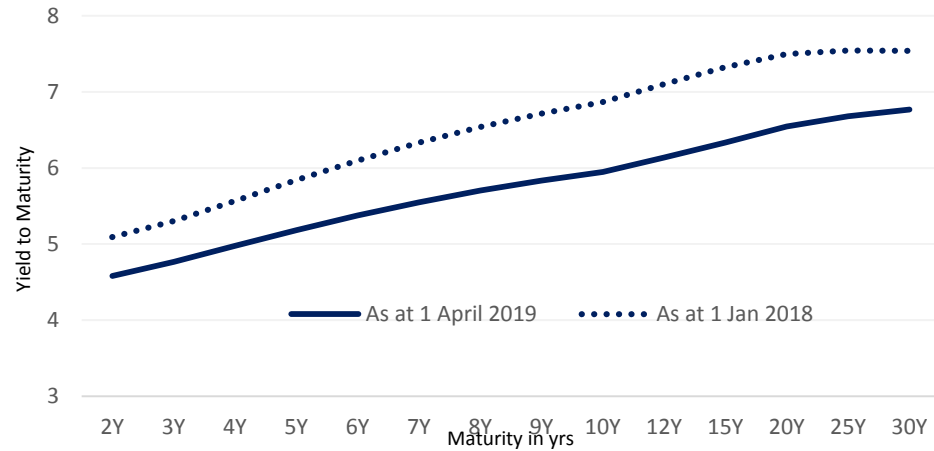
Saudi Curve



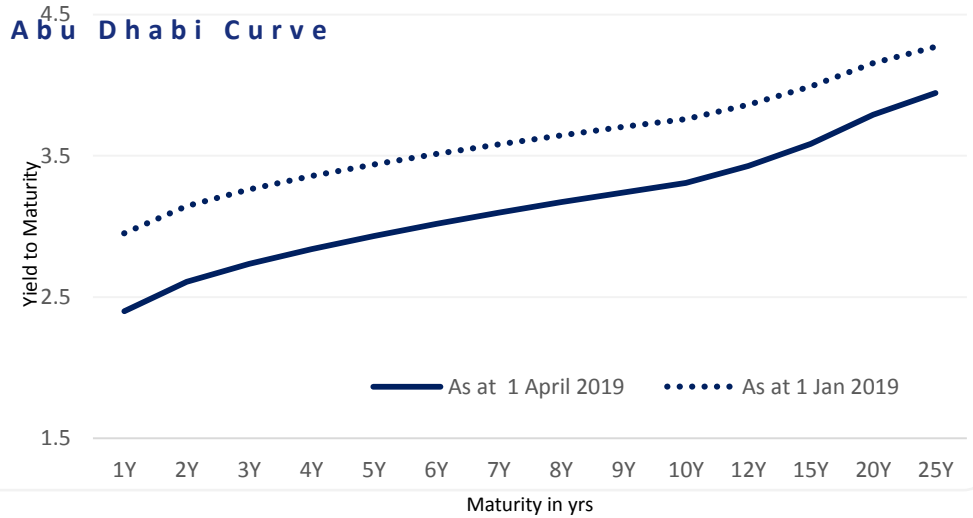
Oman Curve



Bahrain Curve



Abu Dhabi Curve



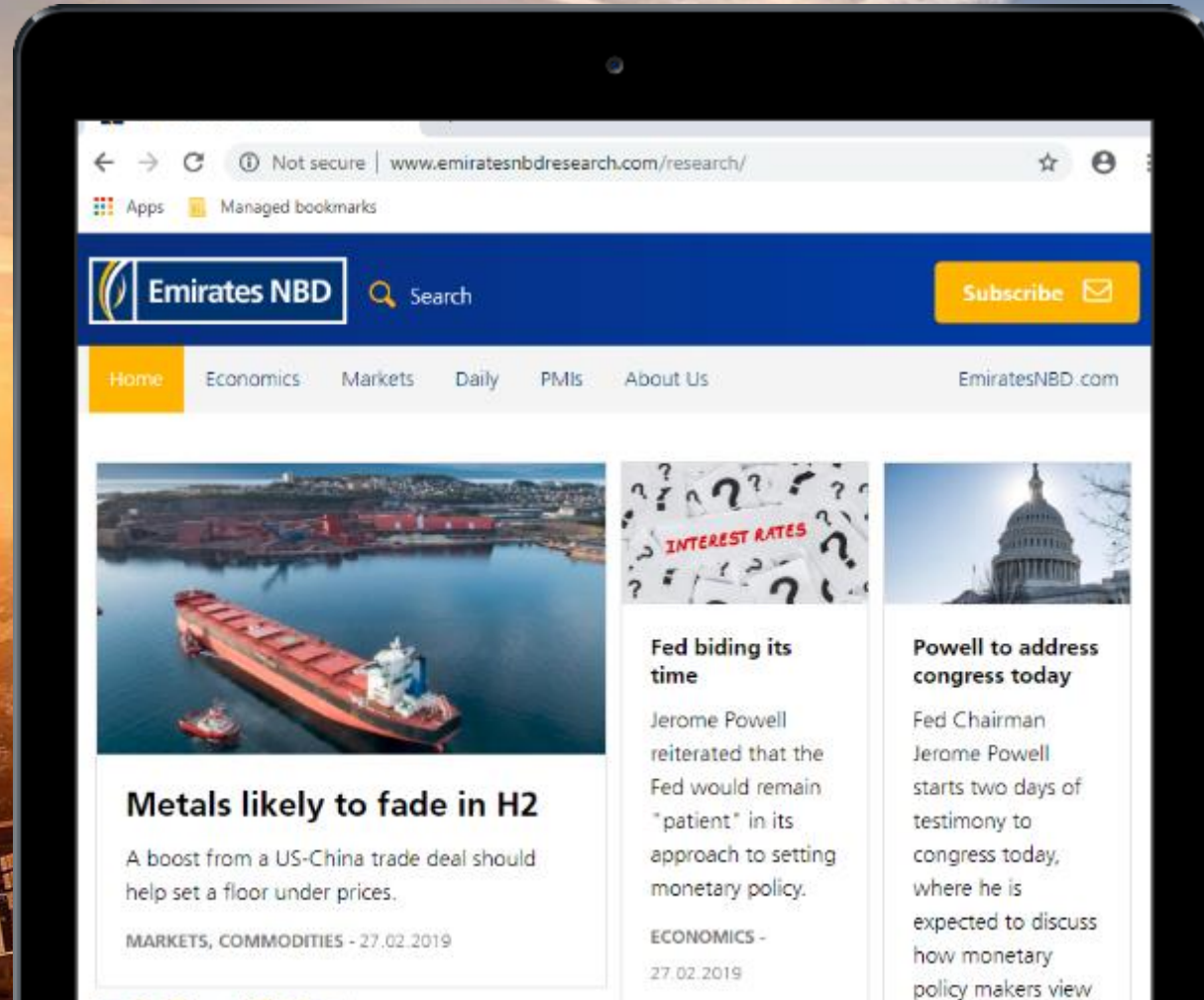
Source: Bloomberg, Emirates NBD Research



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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