



بنك الإمارات دبي الوطني
Emirates NBD

GCC Sukuk Comment

2 July 2017

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GCC Sukuk

GCC Sukuk investors felt the pain of two negative developments over the last few weeks a) increasing UST benchmark yields and b) declining oil prices. Total return on Emirates NBD Markit iBoxx USD sukuk index closed the month of June with loss of -0.28% mainly accounted by capital losses.

Bank chiefs in Japan, Britain and Europe all have begun hinting towards reining in QE and considering normalisation of interest rates, hinting to a coordinated plan to start lifting global rates. In addition, economic data in the US remained firm and tone of Fed officials remained reasonably hawkish even after a 25bp rate hike in June. Yields on 2yr, 5 yr, 10yr and 30yr treasuries closed up at 1.38% (+10bps), 1.89% (+14bps), 2.30% (+10bps) and 2.83% (-3bps) respectively while those on 10yr Gilts and Bunds were up substantially during the week to 1.25% (+18bps) and 0.46% (+16bps) respectively.

Brent crude price has fallen to circa \$47 / b from over \$50/b in early June. In addition, the political rift between the GCC nations, allegedly over Qatar's involvement with Iran and terrorist groups, is dampening investor sentiment. CDS spreads on GCC sovereigns have risen between 20 – 40 bps in the last one month. Qatar 5yr CDS rose to its highest level in the year to 121bps (+65bps).

Sukuk from Qatar generally were under pressure as credit rating on Qatar got downgraded by one notch to AA- by S&P with continuation of credit watch negative. Ezdan 22 sukuk was one of the worst performers, post its delisting from the stock exchange, closing the month nearly seven points lower at \$93.73. Qatari banks were also slightly under pressure as the cost they are having to pay for deposits rises in the face of political row in the region.

One of the topical news that kept investors on the edge during the month was the ongoing saga with restructuring of the DANA gas sukuk. Initial court hearing is set for 25th December 2017. A court decision in favor of Dana Gas would not only be significantly disadvantageous to the Dana gas sukuk holders but will also test sukuk regulatory and legal frameworks in the U.A.E. as a jurisdiction. Surprisingly DANA sukuk prices are still well above the \$85 mark reflecting investor optimism about recourse to the issuer under the English Law even if sukuk gets classified as non-sharia compliant. Purchase of about 5% stake in Dana Gas by the Goldilocks Investment, part of Abu Dhabi Financial Group, also boosted investor confidence somewhat.

UAE's Majid Al Futtaim acquired Geant Supermarket chain which has expanded the group's retail footprint in the Middle East and reduced competition in its home market. MAFUAE 25s recorded circa 13bps tightening in Z-spread during the month although overall bond price was still slightly lower as a result of higher benchmark UST yield curve.

Emirates NBD Markit iBoxx USD Sukuk Total Return Index



Source: Bloomberg, Emirates NBD Research

With the anointment of Prince Mohammed bin Salman as heir to the Saudi throne, any doubts over the continuation of reform policies in the Saudi Arabia have reduced even though economic growth has turned anaemic. SECO sukuk curve spend the month in stable territory with SECO 44s rising marginally in price to over \$107.75.

Bahrain sovereign sukuk reacted negatively to the news about cabinet approving draft 2017 budget with expected revenue of 2.2b dinars and expenditure of 3.5b dinars. Bahrain will likely need to tap capital markets again in the second half this year to fund the budget deficit. Budget for 2018 is also likely to show deficit of 1.2 billion dinars (revenue BHD 2.3bn, expenditure BHD 3.5bn) which will need funding. Fitch revised the outlook on its BB+ rating on Bahrain to negative citing concerns about the government's lack of clear medium-term strategy to tackle high deficits and a rapidly growing government debt ratio. Over the month, BHRAIN 24s lost more than a dollar and half in price terms.

After robust issuance volume until May, primary issuance of sukuk was absent in June, barring the US\$2 billion issued by the Oman sovereign in late May that debt in the secondary market in early June.

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