

GCC Fixed Income Weekly Review

Global bonds kick-started the New Year on a mixed note as geopolitical tensions soared after the US attack on Iranian military leaders. Developed market bonds rallied on the back of the geopolitical tensions. US Treasury yields dropped with the increase in preference for safe-haven assets, during the last day of the week and also on account of weak economic data. The 10yr US Treasury yield declined by 9bp to 1.79%. Geopolitical tensions also raised demand for European bonds. The 10yr German bund yield declined to -0.29% while the 10yr UK gilt yield ended the week at 0.74%.

Emerging market bonds ended the week mostly unchanged despite the rise in geopolitical tensions as liquidity remained low due to holiday-shortened week in most of the countries. The losses were also capped on China announcing reserve ratio cut to support growth. The GCC Barclays Bloomberg Indices also ended the week flat with the exception of Saudi Arabia bond index which recorded some loss over the week.

Geopolitical concerns were reflected in the widening of CDS spreads seen in majority of the emerging markets. The widening in CDS spreads was noticeable in the middle-east countries. Within GCC, Saudi Arabia recorded the largest widening in CDS spreads, with the rise in US-Iran tensions. In the dollar sovereign bond market, Saudi 10yr USD yields also rose, albeit marginally. Issuance activity was broadly muted with major issuance only coming from Sharjah where the emirate issued 2023 maturing dollar sukuk. In addition to the geopolitical tensions, Saudi also reported a decline in Q3 GDP (see below). Elsewhere, Oman government budgeted higher spending for 2020 with deficit to remain wide, albeit lower than 2019 (see below)

| Country | Saudi Arabia | Abu Dhabi | Dubai* | Kuwait | Bahrain | Oman | Qatar | Egypt |
|---------|--------------|-----------|--------|--------|---------|------|-------|-------|
| Moody's | A1 | Aa2 | Baa1 | Aa2 | B2u | Ba1 | Aa3 | B2 |
| S&P | A-u | AA | - | AA | B+ | BB | AA- | B |
| Fitch | A | AA | - | AA | BB- | BB+ | AA- | B+ |

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GCC Fixed Income Weekly Snapshot

| Bond Index Snapshot (Emerging market and GCC) | | | | Interest rates (Sunday to Thursday) | | | |
|---|-------------|----------|----------|--------------------------------------|--------|----------|----------|
| BBG Barclays | Latest | -1w % | YTD % | 3M interbank | Latest | -1w (bp) | YTD (bp) |
| EM USD Agg TR | 1,212.1 | 0.3 | 0.2 | Saudi | 2.23 | -0.57 | -0.74 |
| EM LatAm TR | 1,042.0 | 0.4 | 0.2 | UAE | 2.16 | 1.71 | -0.72 |
| EM EMEA TR | 373.1 | 0.2 | 0.0 | Kuwait | 2.69 | -6.25 | 0.31 |
| EM Asia TR | 636.9 | 0.3 | 0.5 | Bahrain | 2.67 | 0.00 | -1.28 |
| Bahrain TR | 168.4 | 0.3 | -0.0 | Oman | 2.81 | 1.00 | -0.02 |
| Kuwait TR | 139.3 | 0.0 | 0.0 | Qatar | 2.20 | -7.50 | -0.68 |
| Qatar TR | 135.3 | -0.2 | -0.3 | US | 1.90 | -6.03 | -0.90 |
| Saudi Arabia TR | 136.5 | -0.3 | -0.5 | 12M interbank | | | |
| UAE TR | 135.2 | 0.1 | 0.0 | Saudi | 2.31 | 0.00 | -1.02 |
| 5Y Sov. CDS | Latest (bp) | -1w (bp) | YTD (bp) | UAE | 2.28 | 3.41 | -1.19 |
| Saudi Arabia | 62.7 | 5.9 | 5.6 | Kuwait | 3.13 | -6.25 | 0.25 |
| Abu Dhabi | 38.0 | 1.5 | 1.3 | Bahrain | 2.83 | 0.00 | -1.87 |
| Dubai | 97.1 | 2.0 | 0.3 | Oman | 3.37 | 2.50 | 0.01 |
| Kuwait | 38.5 | -1.0 | -1.0 | Qatar | 2.45 | -12.50 | -0.94 |
| Bahrain | 186.19 | 0.1 | - | 10Y yield | | | |
| Oman | 247.9 | 0.1 | -0.2 | Saudi Arabia | 2.88 | 3.30 | - |
| Qatar | 38.8 | 1.5 | 1.5 | Abu Dhabi | 2.53 | 1.00 | - |
| Egypt | 291.5 | -14.5 | - | Dubai | 3.17 | 0.20 | -1.24 |
| Turkey | 287.0 | 2.9 | 3.0 | Kuwait | 2.35 | 2.10 | -1.10 |
| US | 17.4 | 1.9 | 2.0 | Bahrain | 4.56 | -2.80 | -2.53 |
| UK | 21.7 | 1.4 | -0.8 | Oman | 5.35 | -0.10 | - |
| Germany | 10.0 | -0.1 | -0.1 | Qatar | 2.54 | 1.30 | -1.34 |

Note: *Dewa rating used as proxy

Saudi economy contracted by 0.46% in Q3 yoy

Saudi Arabia's economy contracted by 0.46% in Q3 yoy due to a drop in oil output. The oil sector declined by 6.43% but was partially offset by an increase in non-oil output of 4.33%. The source of the growth in Q3 was mainly due to wholesale and retail trade expansion while mining and quarrying (38.2% of GDP) recorded a major decline of 6.39% yoy. OPEC+ have signified a further decrease in output by 500,000 bpd until March this year, which could further dampen the kingdom's economic recovery in 2020. The government has forecasted a GDP growth of 2.3% in 2020.

Oman pencils in higher spending for 2020

Oman government has penciled in a higher spending for 2020 to target employment while fiscal deficit will remain wide at 8% of GDP. Public spending is estimated to rise by 2% in 2020 to OMR13.2bn, of which approximately OMR2.6bn will be split equally between infrastructure projects and oil and gas production. Oil revenue is expected to reach OMR5.5bn, 51% of the total revenue, a 3% decline from 2019 while non-oil revenue is expected to increase by 13% yoy due to higher tax revenues and non-tax revenues. The fiscal deficit for 2020 is projected to be 8% of GDP, lower than 2019. The deficit has been trending downwards for the past 3 years. 80% of the deficit will be funded by domestic and external borrowing, with the remaining being covered by drawing reserves.

Saudi non-oil private sector growth rate hits 5-month low

Saudi Arabia's non-oil private sector growth was the lowest since July, due to both lower output and new orders. The IHS Markit Saudi Arabia PMI decreased to 56.9 in December from 58.3 in November 2019, but yet remained in expansion territory (above 50). The decline was mainly on account of slowing business rate activity, recorded at 58.1 and the lowest since October 2018, with firms indicating difficulty in closing sales. Employment growth also was weak, recorded at 50.5.

Saudi debt issuance totaled USD32bn in 2019

Saudi Arabia issued a total of USD32bn worth of US dollar and euro-denominated bonds in 2019. The Saudi government borrowed SAR69.84bn from local Islamic bond issuance in 2019, compared to SAR48.38bn in 2018. Issuance from international sukuk rose by 25% in 2019 (SAR9.38bn).

Kuwait's Sultan Center gets approval for USD50mn in convertible bonds

Kuwait's Sultan Center Food received Kuwait's Capital Markets Authority nod for the prospectus of the private placement to issue KWD15mn (USD50mn) of convertible bonds to ordinary shares. In September the company got approval to issue convertible bonds in its capital. However, the CMA, later in November, agreed to cut the issued and paid up capital of the company to offset some of the losses.

Egypt to issue first green bond in 2020

A local Egyptian company plans to issue the country's first green bond in the first half of 2020. The Egyptian Financial Regulatory Authority is finalizing all the procedures required to issue green bonds. The FRA is compiling and developing a taxonomy specifically for green projects to create a green bond issuance guideline.

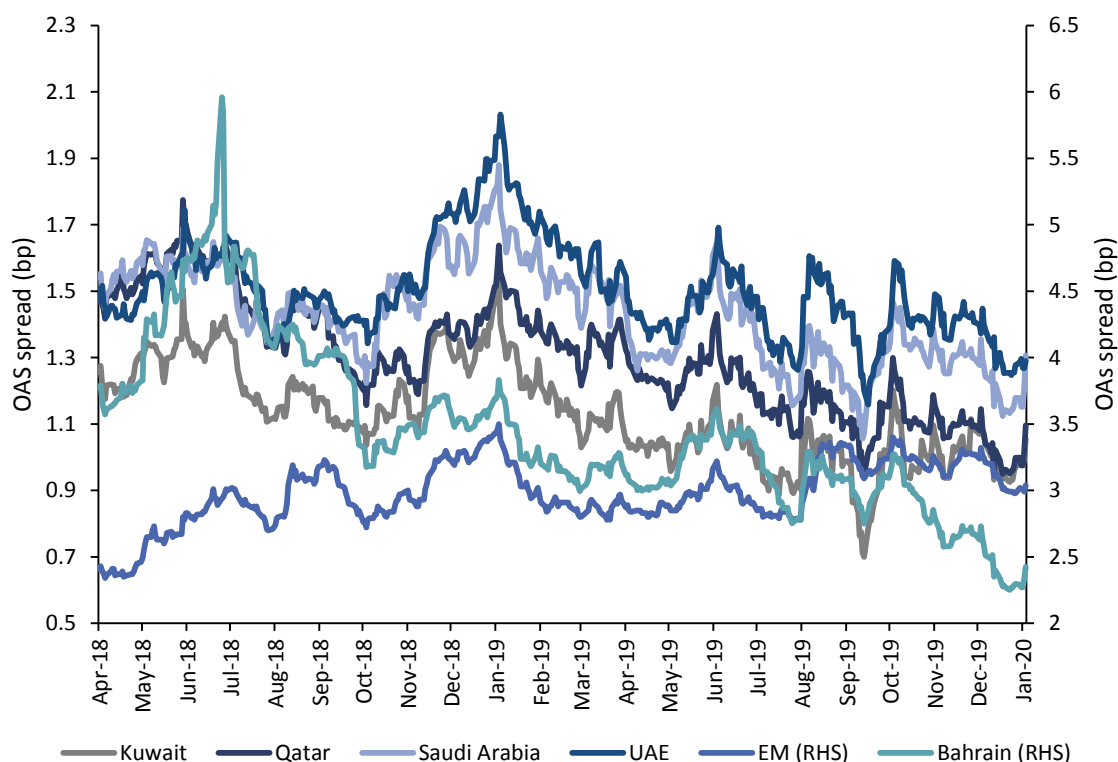
Latest bond issuances (Corporate and Sovereigns)

| Corporate Issuer | BBG | Sector | Country | Amt Issued* | Cpn | Maturity | Maturity Type | Currenc | Issue Date | Rtg^ |
|-----------------------|--------|-----------|---------|-------------|------|------------|---------------|---------|------------|------|
| Oman Sovereign | OMANG | Treasury | OM | 519.494 | 5.5 | 12/10/2022 | AT | OMR | 12/12/201 | BB+ |
| Oman Sovereign | OMANG | Treasury | OM | 259.747 | 5 | 12/10/2022 | AT | OMR | 12/12/201 | BB+ |
| Kingdom of Bahrain | BHISL | Treasury | BH | 68.9572 | 2.57 | 6/11/2020 | AT | BHD | 12/12/201 | BB- |
| Kuwait Central Bank | KCB | Treasury | KW | 955.2832 | 0 | 3/17/2020 | AT | KWD | 12/17/201 | AA |
| Sharjah Sukuk | SHARSK | Sovereign | AE | 75 | 2.94 | 12/23/2022 | AT | USD | 12/23/20 | A- |
| Kuwait Central Bank | KCB | Treasury | KW | 658.978 | 0 | 3/24/2020 | AT | KWD | 12/24/20 | AA |
| Oman Government | OMANG | Treasury | OM | 519.488 | 5.75 | 12/26/2022 | AT | OMR | 12/26/20 | BB+ |
| Bahrain Treasury Bill | BHTB | Treasury | BH | 265.234 | 0 | 12/24/2022 | AT | BHD | 12/26/20 | BB- |

*Amount Issued in USDmillion, Bloomberg sector classification has been used, ^Issuer rating used where applicable, Fitch rating or equivalent used Source: Bloomberg, ADC

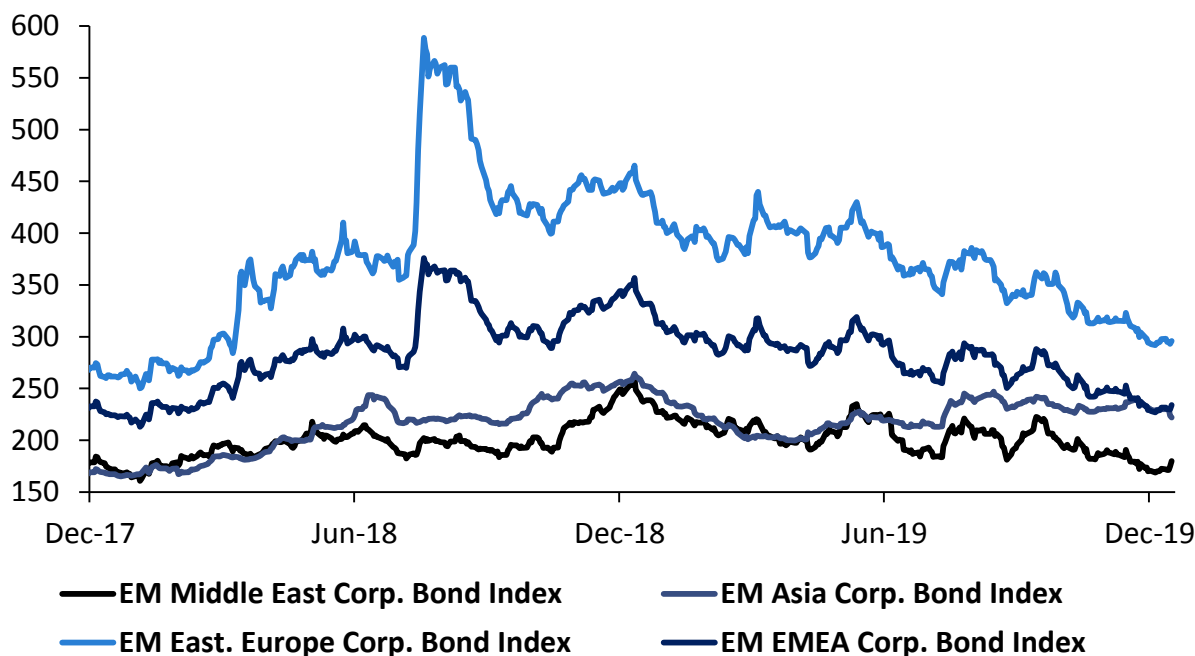
Appendix

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



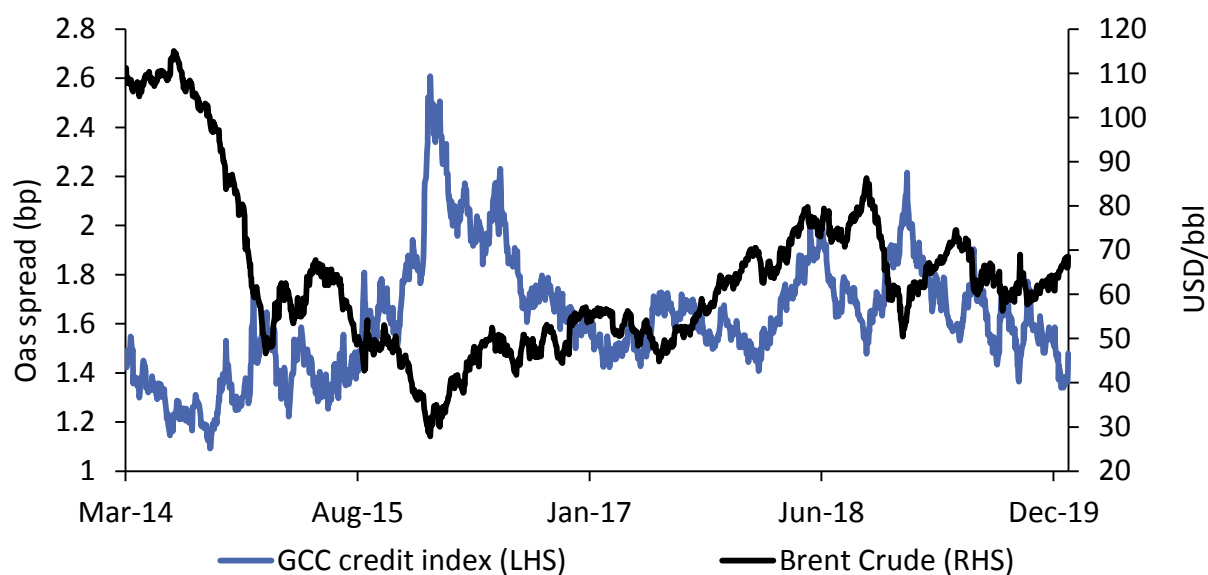
Source: Bloomberg Barclays Sovereign Bond Indices, ADCB

Emerging markets versus Middle East spread



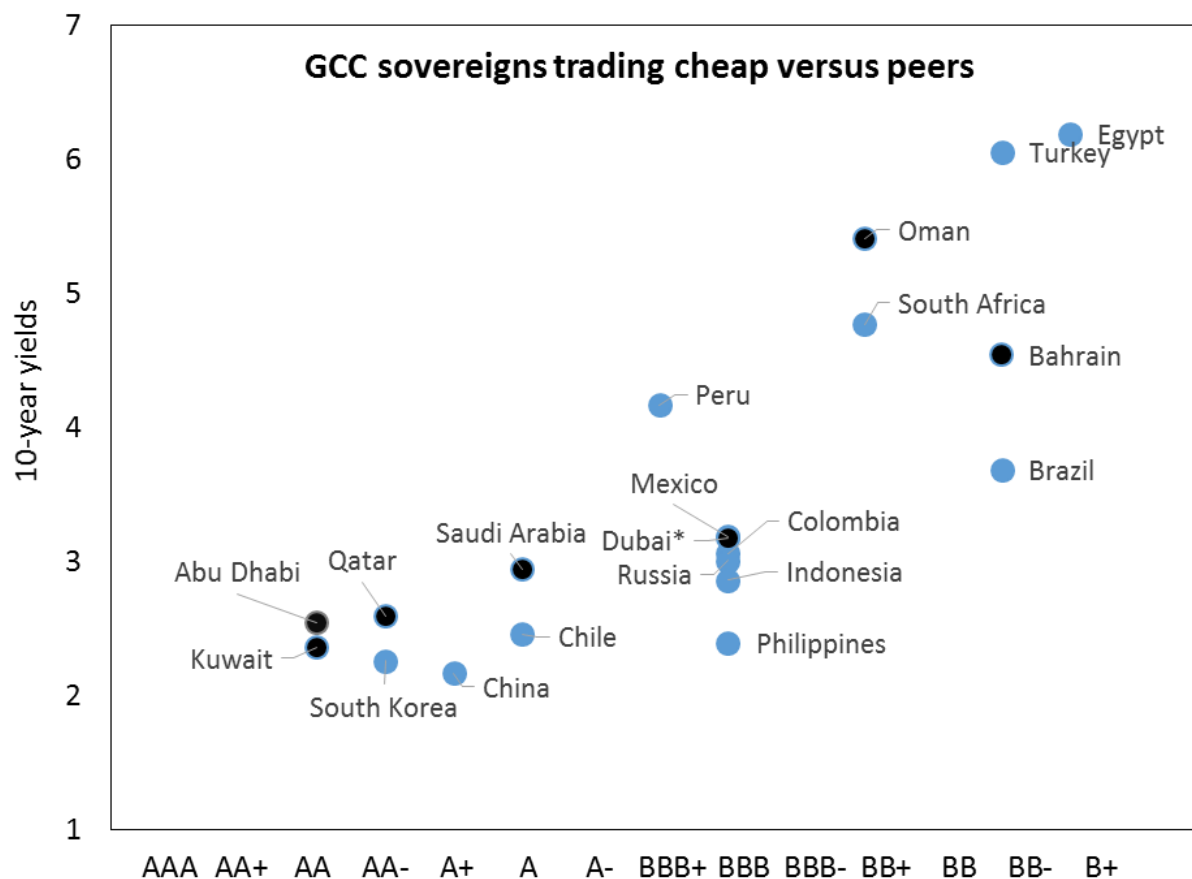
Source: Credit Suisse Corporate Bond Indices, ADCB

GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

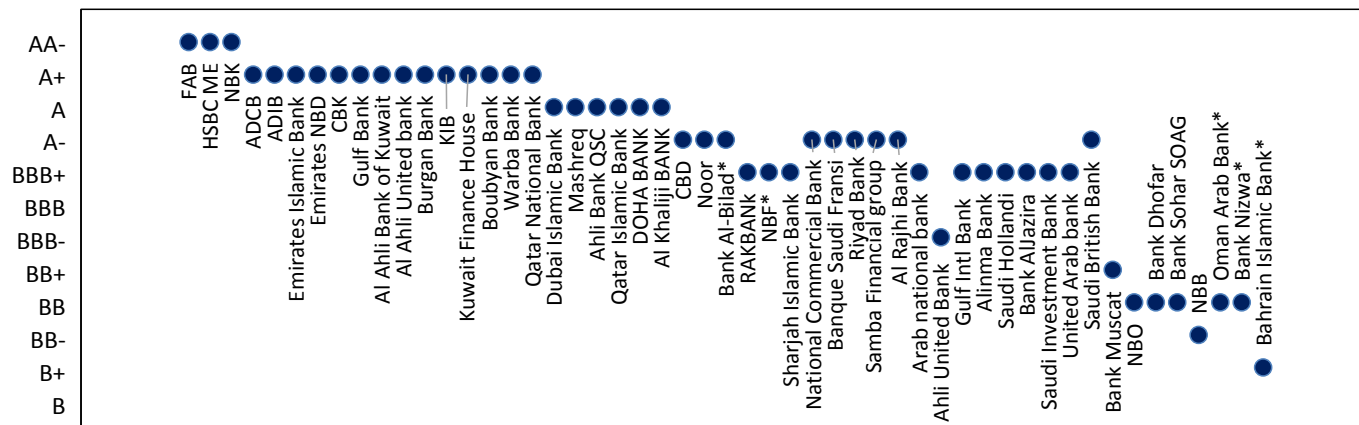
10yr yield versus Credit ratings (EM vs GCC)



Source: Bloomberg, ADCB, *Dewa rating used as a substitute for Dubai, Fitch ratings are used for all countries

GCC Financials Credit Rating

GCC Financials

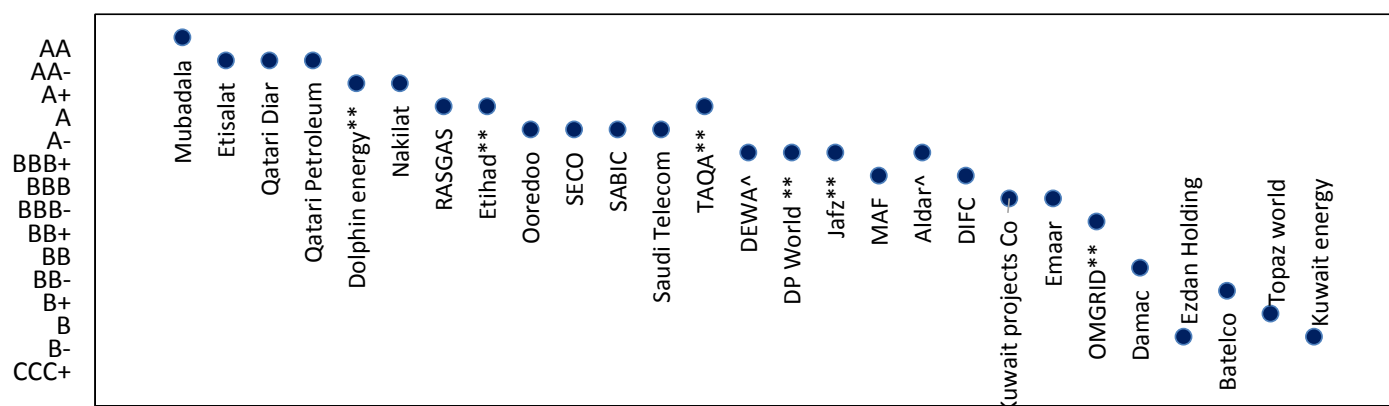


Note: The ratings refer to Fitch ratings, *S&P rating used as substitute where the corporate/bank not rated by Fitch rating

Source: Bloomberg, ADCB

GCC Corporate Credit rating

GCC Corporates



Note: The ratings refer to S&P ratings, ** Fitch ratings used as substitute where the corporate/bank not rated by S&P ratings, ^

refers to Moody's ratings Source: Bloomberg, ADCB

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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