

GCC Fixed Income Weekly Review

Trade worries dominated the global bond markets last week. In the US, treasury yields moved lower as trade uncertainty overshadowed the strong economic data. The yield curve flattened in spite of the Markit manufacturing gauge rising to a seven-month high. The 10yr UST yields declined to 1.77% while 2yr UST yields rose to 1.62%. However, the European bond markets were largely muted to the flattening trend in the US. Bond yields ended the week flat, as positive economic signals offset the trade uncertainty. The flash manufacturing PMI releases pointed to a rebound in manufacturing while the new ECB President Lagarde stressed on the need of more public expenditure to boost growth.

Emerging market bonds lacked momentum, amidst the continued uncertainty over the US-China trade deal. Bloomberg Barclays EM USD Aggregate index ended flat for the week. However, regional bond indices posted gains last week and yet again the higher-quality GCC sovereigns performed well. Saudi Arabia bond index recorded the largest weekly return, outperforming other GCC peers. On the other hand, Bahrain bond index underperformed the most.

CDS spreads were seen widening in majority of the emerging markets. However, within GCC, CDS spreads tightened in Dubai and Abu Dhabi. Preference for quality amongst GCC bonds was clearly evident as higher-rated USD sovereign bond yields edged lower while the low-quality sovereign bonds of Bahrain and Oman saw a jump in their yields. In terms of issuance, Saudi mall operator Arabian Centres successfully issued their USD sukuk, attracting strong demand, particularly from non-GCC international investors while National Bank of Kuwait sold USD750mn worth of perpetual bonds. The emirate of Abu Dhabi indicated their plans of launching the region's first social impact bonds next year (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+

Prerana Seth

Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Luciano Jannelli, Ph.D., CFA

Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Mohammed Al Hemeiri

Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Noor Alameri

Analyst
Tel: +971 (0)2 695 5182
noor.alameri@adcb.com

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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	1,188.9	-0.0	11.2	Saudi	2.23	0.14	-0.74
EM LatAm TR	1,004.9	-0.4	8.5	UAE	2.20	5.83	-0.68
EM EMEA TR	367.6	0.0	13.3	Kuwait	2.75	0.00	0.38
EM Asia TR	630.3	0.2	11.3	Bahrain	2.78	0.00	-1.17
Bahrain TR	164.5	-0.0	16.6	Oman	2.82	3.83	-0.02
Kuwait TR	138.3	0.1	9.1	Qatar	2.33	-2.50	-0.55
Qatar TR	135.0	0.3	13.4	US	1.91	0.54	-0.89
Saudi Arabia TR	136.1	0.4	16.1	12M interbank	Latest	-1w (bp)	YTD (bp)
UAE TR	134.0	0.3	11.0	Saudi	2.29	-0.57	-1.04
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	UAE	2.29	3.95	-1.18
Saudi Arabia	70.5	2.9	-36.6	Kuwait	3.19	6.25	0.31
Abu Dhabi	43.2	-0.5	-14.8	Bahrain	2.92	0.00	-1.78
Dubai	126.4	-8.1	-7.8	Oman	3.35	0.83	-0.01
Kuwait	45.5	1.0	-23.6	Qatar	2.74	2.92	-0.65
Bahrain	226.94	-	-87.2	10Y yield	Latest	-1w (bp)	YTD (bp)
Oman	288.9	-	-59.5	Saudi Arabia	2.94	-4.80	-
Qatar	43.7	-0.1	-41.5	Abu Dhabi	2.58	-6.40	-
Egypt	329.3	7.1	-78.8	Dubai	3.26	-2.80	-1.15
Turkey	308.9	-5.4	-54.9	Kuwait	2.40	-0.60	-1.05
US	15.8	-0.9	-8.6	Bahrain	4.95	9.90	-2.13
UK	24.3	-2.1	-17.0	Oman	5.91	12.50	-
Germany	10.2	0.1	-4.9	Qatar	2.58	-2.10	-1.29

Note: *Dewa rating used as proxy

Abu Dhabi likely to launch GCC's first social impact bonds

Abu Dhabi is likely to issue GCC's first Social Impact bonds which will help to develop an outcome-oriented approach to social challenges, encouraging innovation and growth. Social impact bond is an ingenious financial tool, recognized internationally, which will help raising private investments to support social programs. These bonds, likely to be introduced next year, will be operating on a pay-for-success basis, where the payment is dependent on a successful social outcome. Social service providers have the flexibility to find a solution that achieves the social outcome. Private investors, will provide the capital for the social program by investing in the Social Impact bonds and the government will pay back the investor -with interest provided the social outcomes are successfully achieved.

Saudi mall operator Arabian centres' sukuk attracted strong demand

Saudi mall operator, Arabian Centres Company, successfully completed the offering and the pricing of the USD500mn sukuk issuance. The fixed-rated USD sukuk, part of the USD1.9bn refinancing package, attracted strong demand from investors with the issue oversubscribed by four times. The bonds carry a coupon rate of 5.375%. The bond sale also received strong interest with non-GCC international investors accounting for 84% of the total transaction allocation. The bonds have received an inaugural Issuer Rating of BB+ from Fitch Rating Agency and Ba1 from Moody's.

Fitch affirms Doha Bank's rating at 'A' with a stable outlook

Fitch ratings agency affirmed Doha Bank's Long Term Issuer Default Rating (IDR) at 'A' with a stable Outlook. The rating illustrates Fitch's belief that there is a high probability of support for the domestic financial sector from the Qatari authorities. This is based on the strong track record of the government supporting the banking sector while simultaneously holding stakes in all Qatari banks.

National Bank of Kuwait sold new perpetual bonds

National Bank of Kuwait issued USD750mn worth of perpetual bonds last week. The bonds offer a yield of 4.5%.

Fitch Ratings stated that state ability to support GCC banks has weakened

Fitch Ratings agency stated in its new published report that the GCC sovereign's ability to provide support for banks in some of countries has weakened. The rating agency pointed out that the sovereign's support has particularly deteriorated in Saudi Arabia and Oman. Nevertheless, sovereigns' willingness to provide support still remains extremely strong throughout the GCC. Profitability is still strong in all the countries, benefiting from cheap funding. However, asset quality has weakened, with rising impaired loans ratios in four out of the six countries.

Islamic finance assets reached USD2.5trn level in 2018.

According to the Islamic Finance Development report 2019, the Islamic finance industry's assets grew by 3% in 2018, from USD2.4trn in 2017 to USD2.5trn in 2018. This growth, albeit has been sluggish compared to the previous years with growth more prominent only in some of the industry's main markets. Saudi Arabia and Malaysia were amongst the largest markets of 61 countries that reported Islamic financial assets. The countries that saw the fastest growth in assets are Morocco, Cyprus and Ethiopia, while Malaysia, Bahrain, the UAE and Indonesia were the top developed countries in Islamic Finance industry.

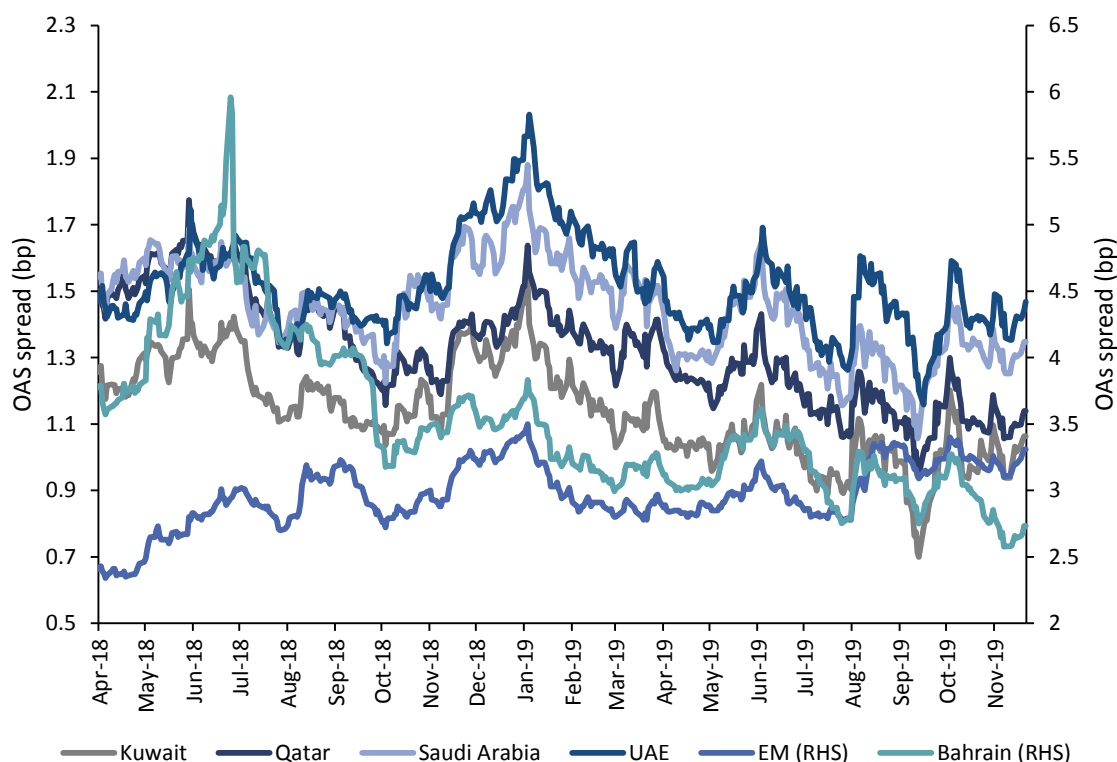
Latest bond issuances (Corporate and Sovereigns)

Corporate Issuer	BBG	Sector	Country	Amt Issued*	Cpn	Maturity	Maturity Type	Currency	Issue Date	Rt
DIB Sukuk Ltd	DIBUH	Financials	AE	750	2.95	2/20/2025	AT MATURITY	USD	11/20/2019	A

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

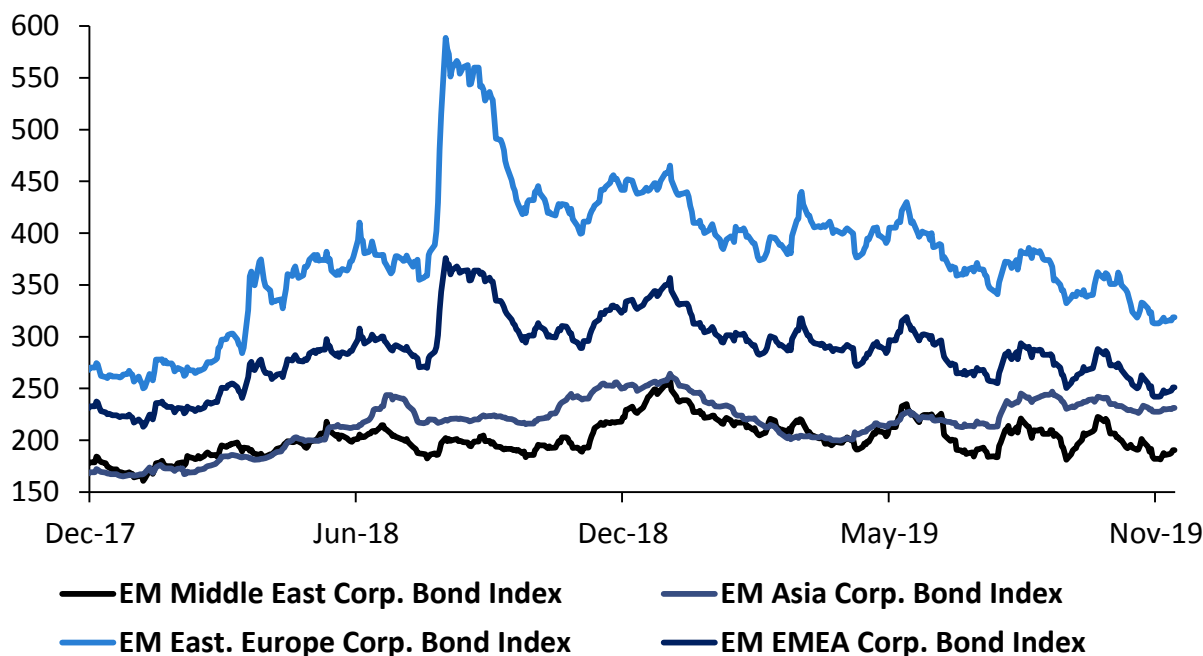
Appendix

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



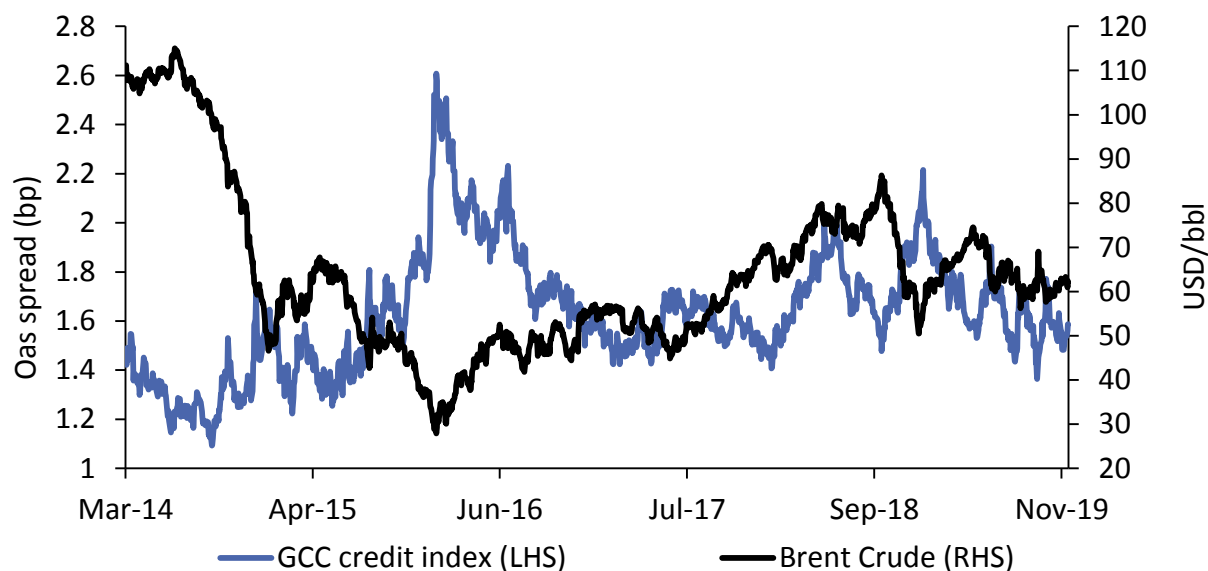
Source: Bloomberg Barclays Sovereign Bond Indices, ADCB

Emerging markets versus Middle East spread



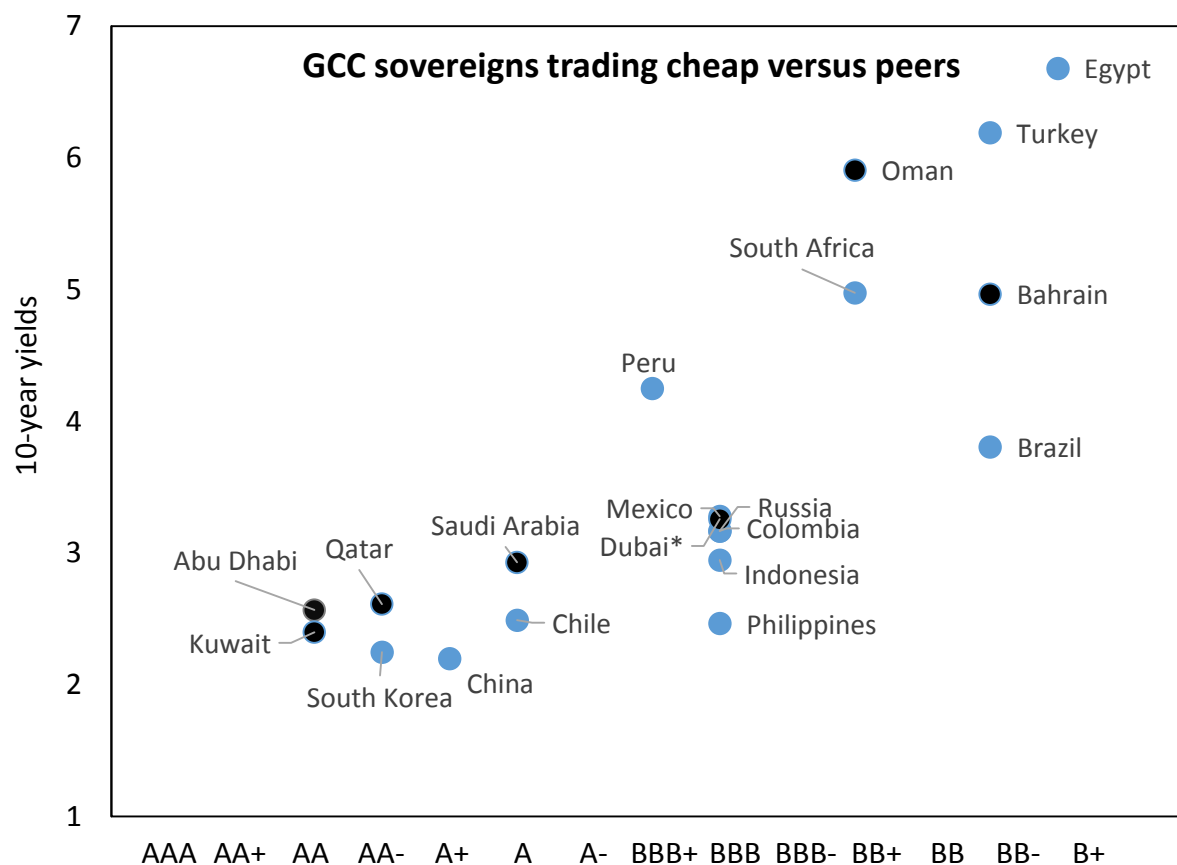
Source: Credit Suisse Corporate Bond Indices, ADCB

GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

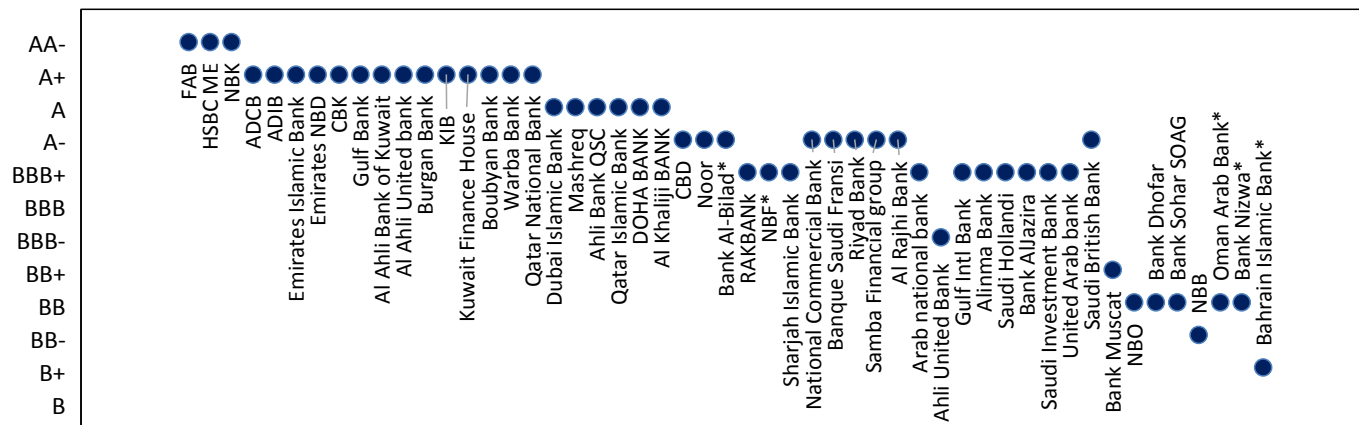
10yr yield versus Credit ratings (EM vs GCC)



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

GCC Financials Credit Rating

GCC Financials

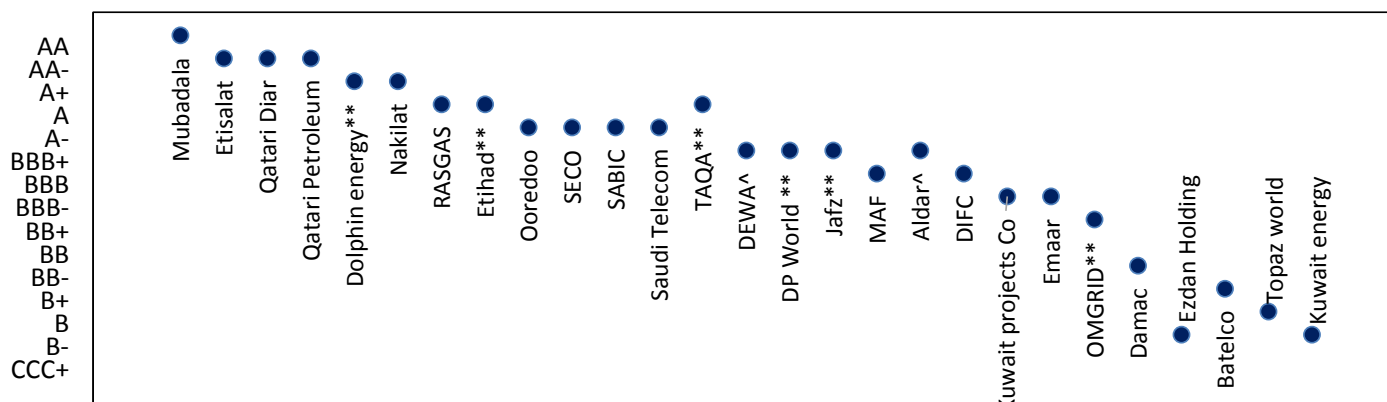


Note: The ratings refer to Fitch ratings, *S&P rating used as substitute where the corporate/bank not rated by Fitch rating

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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