

GCC Fixed Income Weekly Review

Another volatile week for global bond markets as fixed income investors digested the announcement of massive fiscal stimulus plans from governments along with central bank stimulus packages while the covid-19 cases topped 300,000 across the globe. The 10yr UST yield touched the three week high of 1.22% due to combination of liquidity stress in the market and pricing in the stimulus plan by the US government, but ended the week at 0.82% with new support measures announced by the central bank. The Fed announced a bazooka of measures, pumping USD1trn to ease funding stress, akin to the measures taken during the financial crisis- emergency rate cut of 100bp, increased lending to banks and corporates, new bond purchases of treasuries (500bn), mortgage bonds (250bn) and short-term municipal bonds. The short-term Treasury yields declined over the week and the 10-2yr UST curve steepened. In Europe, the ECB announced a new Pandemic Emergency Purchase Program- EUR750bn purchase of securities (on top of EUR120bn). The periphery bonds benefitted the most with spreads of Greek, Italian, Spain and Portugal bonds narrowing against the German bunds.

Emerging market bonds had another terrible week, with massive losses recorded across the regions, as strong rise in dollar and tightening of financial conditions offset the announcement of co-ordinated central bank easing. Latam was the worst hit while losses in Asia bonds recorded the lowest weekly loss. Within GCC, all countries recorded weekly losses of more than 5%.

CDS spreads continued to widen across emerging markets. Within GCC, Bahrain and Oman CDS spreads widened the most while Dubai CDS spreads reversed some of their previous widening. In the USD sovereign bond market, yields jumped across all GCC markets by more than 1% as oil prices posted their biggest weekly loss since 1991. The largest jump in bond yields seen in 10yr Bahrain and 10yr Oman bonds, where yields rose by almost 2%. The announcement of stimulus packages by nations across the GCC failed to provide any relief to the bond market with even the top rated bonds of Abu Dhabi coming under selling pressure. More relief and stimulus packages last week were announced across the GCC with the total value of stimulus reaching USD130bn. After the CBUAE provided USD27bn package, Abu Dhabi executive council, joined Dubai (AED1.5bn), in adding stimulus worth AED9bn to support economic activity. Saudi Arabia unveiled stimulus package of USD32bn to ease the impact of the virus on economic activity. Oman central bank announced USD20bn worth of stimulus while Bahrain has allocated USD11.38bn in stimulus package and Kuwait is providing USD1.6bn in additional funding. GCC countries also cut rates, following the Fed.

Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aaa2	Baa1	Aa2	Ba2	Ba2	Aa3	B3
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)			
	Latest	-1w %	YTD %		Latest	-1w (bp)	YTD (bp)
BBG Barclays*				3M interbank			
EM USD Aqg TR	1,059.5	-7.5	-12.4	Saudi	1.01	-32.43	-121.86
EM LatAm TR	826.6	-11.8	-20.5	UAE	1.12	-14.36	-98.99
EM EMEA TR	326.4	-6.9	-12.5	Kuwait	2.50	0.00	-25.00
EM Asia TR	596.2	-5.0	-6.0	Bahrain	1.70	-43.33	-97.00
Bahrain TR	136.7	-7.7	-18.9	Oman	2.70	3.40	-12.80
Kuwait TR	135.6	-3.1	-2.7	Qatar	1.32	-47.34	-94.67
Qatar TR	125.5	-7.4	-7.6	US	1.20	45.46	-67.71
Saudi Arabia TR	124.3	-6.2	-9.4	12M interbank			
UAE TR	126.7	-5.4	-6.3	Saudi	1.07	-26.86	-124.43
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	UAE	1.21	1.88	-110.73
Saudi Arabia	205.6	7.0	28.2	Kuwait	3.00	0.00	-18.75
Abu Dhabi	146.3	19.7	35.2	Bahrain	1.85	-49.33	-98.33
Dubai	314.0	-28.7	46.0	Oman	3.37	2.10	-2.40
Kuwait	128.0	23.4	31.5	Qatar	1.59	-45.73	-103.81
Bahrain	498.57	34.3	64.4	10Y yield			
Oman	684.0	139.4	179.6	Saudi Arabia	4.36	118.20	119.30
Qatar	161.0	18.0	41.9	Abu Dhabi	3.44	106.30	87.70
Egypt	537.8	11.8	6.9	Dubai	5.64	124.30	238.90
Turkey	552.5	7.0	61.0	Kuwait	3.10	100.10	70.80
US	28.0	2.9	6.2	Bahrain	9.05	217.00	444.10
UK	46.0	4.1	13.3	Oman	11.53	197.10	598.40
Germany	24.0	0.1	3.5	Qatar	4.14	157.80	153.70

Note: *Dewa rating used as proxy

GCC central banks cut rates after Fed rate cut

GCC central banks cut interest rates last week following the Fed rate cuts to ease the implications of the corona virus outbreak. The CBUAE lowered its interest rate on one-week certificates of deposits by 75bp and remaining rates by 50bp. SAMA cut both repo and reverse repo rates by 75bp. Kuwait's central bank lowered its deposit rate by 100bp to 1.5%, lowest rate recorded and also cut its overnight, 1-week, and 1-month repo rate by 100bp to 1%, 1.25% and 1.75% respectively. The Qatar's CB cut lending, deposits and repo rates. Bahrain's CB cut overnight, weekly, and monthly deposit and lending rates.

Abu Dhabi announced AED9bn stimulus package

The ADEC announced last week that an AED9bn stimulus package was agreed upon to ease some of the impact of the coronavirus spread. The council allocated AED5bn to subsidize water and electricity for citizens, industrial, and commercial sectors. Another AED3bn is allocated for the SME Credit Guarantee Scheme. An additional AED1bn is allocated for a market maker fund to boost liquidity and maintain a balance between demand and supply in the stock market.

Saudi Arabia announced USD32bn (SAR 120bn) economic stimulus package

Saudi Arabia announced economic stimulus package worth USD32bn or SAR120bn to support the private sector, especially small and medium enterprises and economic activities that have been impacted by the virus. The stimulus package includes various exemptions and postponement of some government dues to enhance liquidity to the private sector thereby helping them to continue their economic activities. The announcement also allows business owners to postpone the payment of value-added tax, excise tax, income tax, and the submission of Zakat declarations and the payment of obligations due therefrom, for a period of three months.

Oman central bank to provide USD20bn stimulus

Oman central bank is planning to provide USD20.8bn in extra liquidity to banks, with the aim to support the economy amidst the coronavirus outbreak impact. The central bank has asked the banks to reduce banking fees, make adjustments to their capital and credit ratios and allow postponements in repayments up to six months, particularly for the SMEs. The central bank is pushing banks to target lending in sectors hit by the coronavirus, which included healthcare, travel and tourism. Oman remains the most vulnerable to risks of global slowdown given the country's high levels of debt.

Bahrain allocates USD11.38bn to fight coronavirus spread

The Bahraini government announced an economic stimulus package worth USD11.38bn (29.6% of annual GDP) to provide support to its citizens and private sector. The package could include a draft law that targets to pay salaries of all private sector employees for three months from April 2020 from the employment fund. The kingdom will also cover electricity and water payments for individuals and companies for three months starting April 2020. In addition, businesses and individuals will be exempt from municipal and industrial land rental fees for three months while tourism-related firms will be exempt from tourism taxes. Bahrain's liquidity fund will be doubled to USD529.7mn and the Bahrain central bank will increase the lending capacity of banks by USD9.8bn (BHD3.7bn). Bahrain's Finance and National Economy Minister has been given authorization to withdraw directly from the country's public account with an upper limit of 5% of the total appropriations for this fiscal year's budget.

Kuwait's government initiates a sequence of economic and financial reforms

Kuwait's government have decided to launch a new series of financial reforms to support the country's economy. The cabinet meeting last week resulted in an approval of USD1.6bn additional funding to stem the spread and impact of the virus. The required reforms will be combined with incentive measures for companies that are strongly impacted by the current outbreak. The budget deficit is expected to double due to both an estimated decline of 50% in oil revenues and the drop of non-oil revenues due to economic downturn. The reduction in interest rates will also provide various economic sectors some relief from the burden of financing.

Qatar approves USD20.5bn stimulus to tackle corona outbreak

Qatar has announced stimulus package worth USD20.5bn to tackle the economic difficulties arising in the financial incentives private sectors. The country has also asked its state fund to increase their investments in local bourse by QAR10mn.

Saudi government decides to cut 5% of 2020 budget

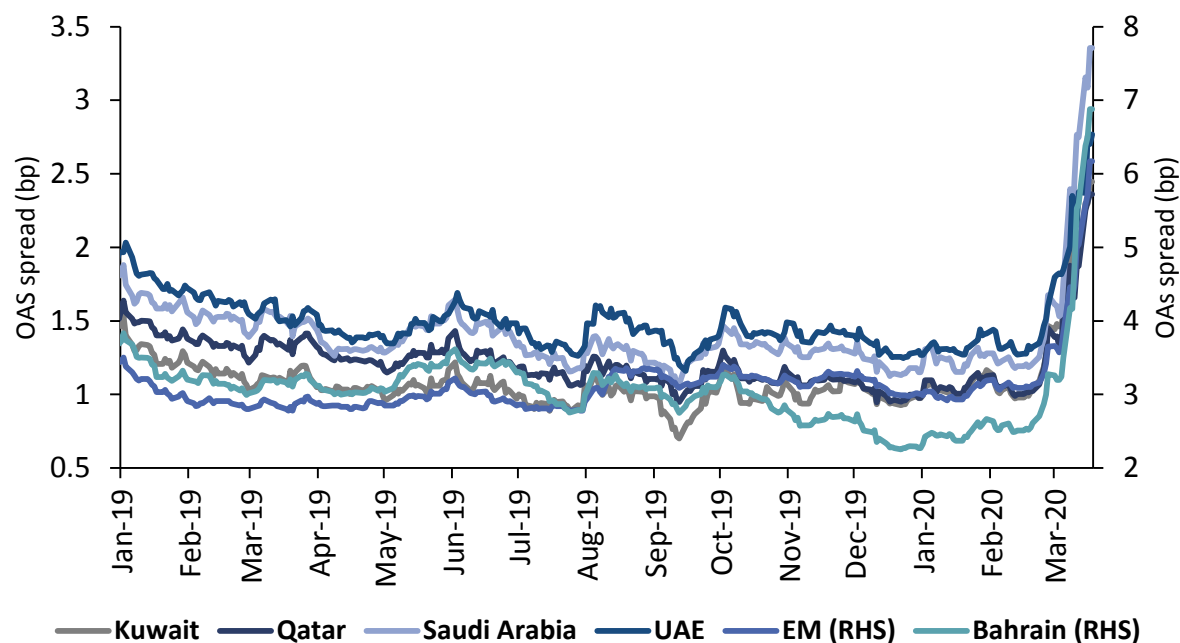
Saudi Arabia's finance minister stated that the government will be cutting USD13.32bn (less than 5%) in its 2020 budget. The budget cuts will be from parts of the budget with the least social and economic impact. The minister also added that the government was taking measure to decrease the impact of lower oil prices that are expected to further decrease. The impacts of the oil prices and corona outbreak will be further asses as development occur which will be reviewed and will alter the budget accordingly.

Dubai banks implement business relief packages for consumers

Under the directives of His Highness Sheikh Mohammed bin Rashid Al Maktoum, banks in Dubai have come to an agreement to provide comprehensive relief package for their customers to ease the financial impacts of the coronavirus outbreak. The new measures are to support the government and the CBUAE's 6 month economic stimulus package and the Dubai government 3 month economic stimulus package for the business sectors of the UAE. The newly appointed measures by the banks will be effective from 1st April to 30 June.

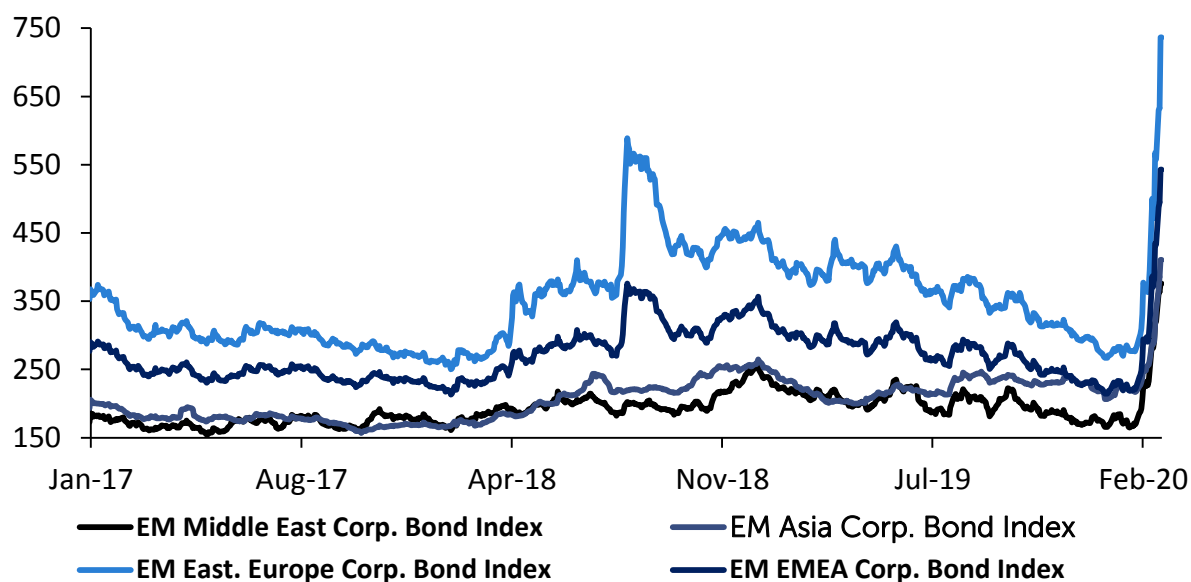
Appendix

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



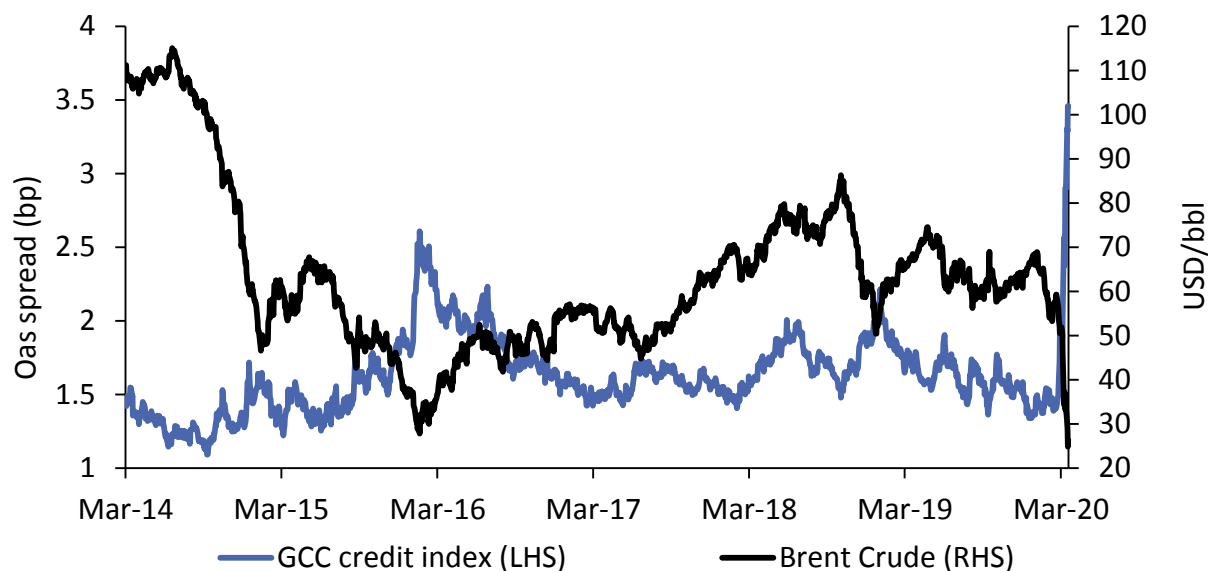
Source: Bloomberg Barclays Sovereign Bond Indices, ADCB

Emerging markets versus Middle East spread



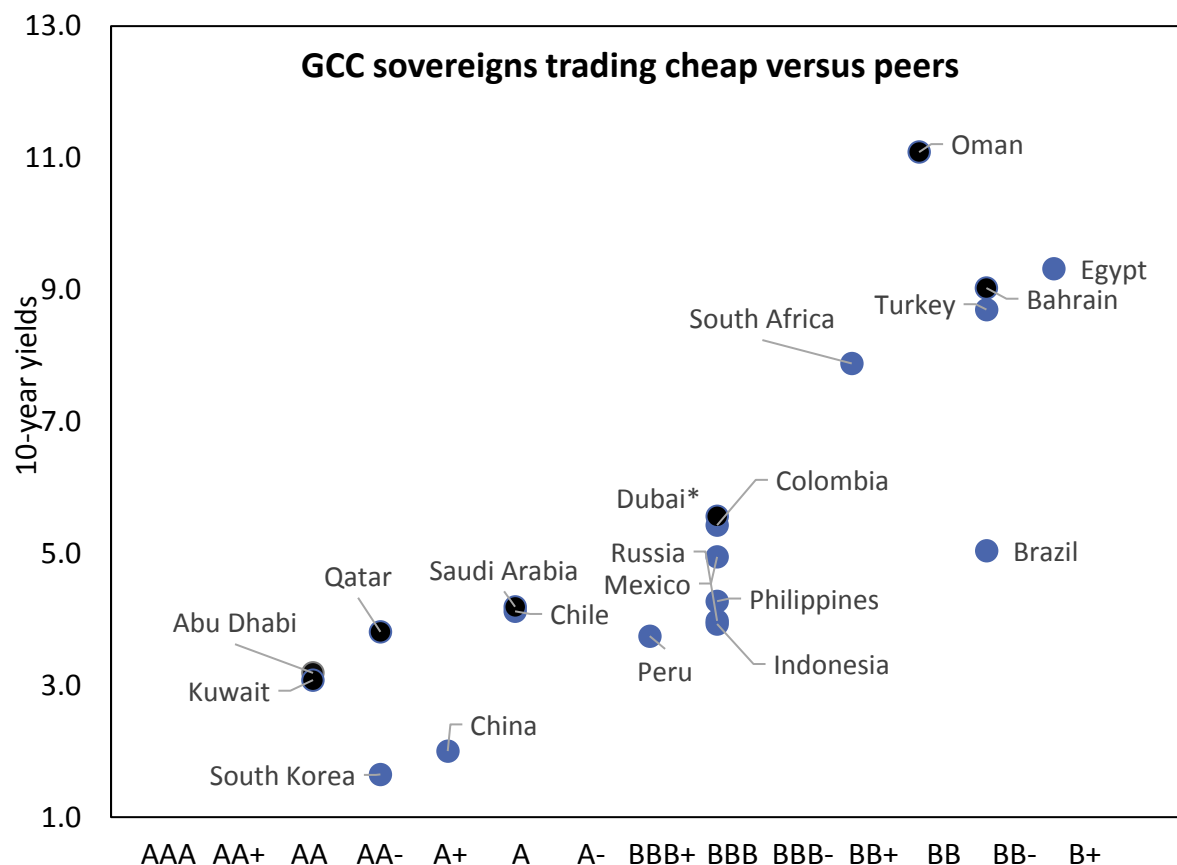
Source: Credit Suisse Corporate Bond Indices, ADCB

GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

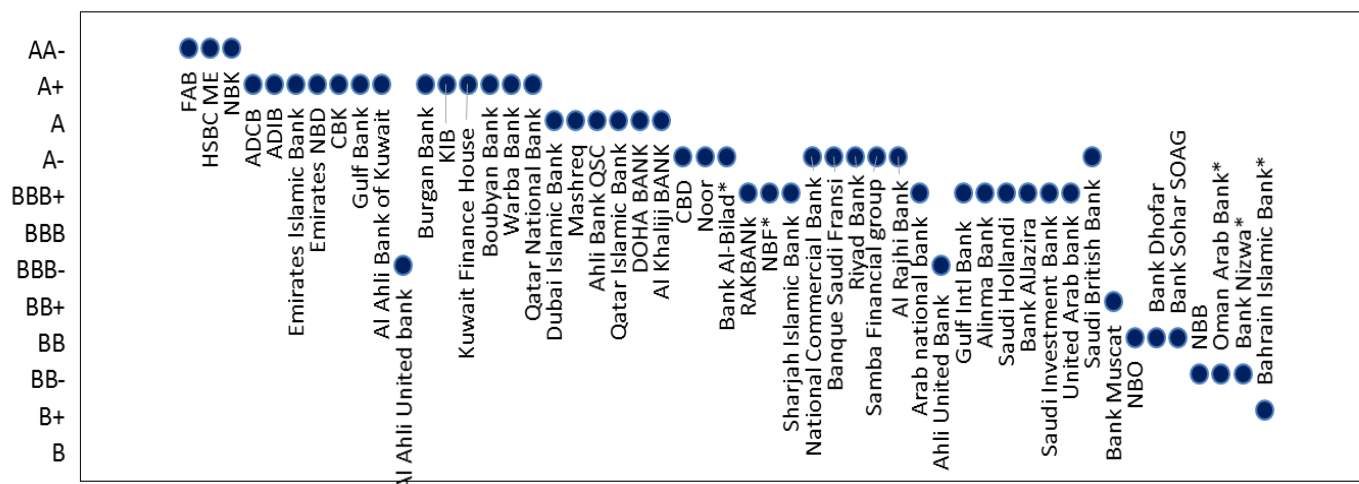
10yr yield versus Credit ratings (EM vs GCC)



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

GCC Financials Credit Rating

GCC Financials

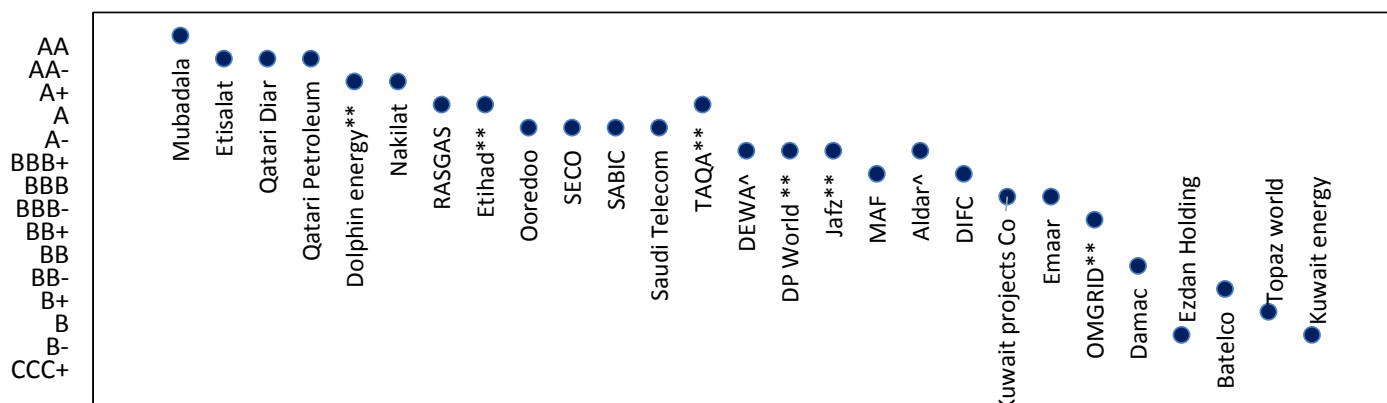


Note: The ratings refer to Fitch ratings, *S&P rating used as substitute where the corporate/bank not rated by Fitch rating

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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