

## GCC Fixed Income Weekly Review

Global bond markets recorded positive returns, driven by the rally in corporate and emerging bond markets. The developed market sovereign bonds posted weekly loss. US Treasury yields jumped higher, on improved hopes of fiscal stimulus. The 10yr UST yields ended the week at the highest level in four months. In Europe, government bond yields tracked the rise in UST yields.

EM USD bonds attracted demand, driven by the risk appetite amidst the hopes of fiscal stimulus and dollar weakening. Within GCC, preference for high yielding sovereigns of Oman and Bahrain was evident.

CDS spreads tightened across all GCC countries, barring Dubai, supported by the gains in oil prices. In the USD sovereign bond market, bond yields declined the most in Oman by more than 50bp. Two largest GCC economies are showings signs of economic recovery as consumer demand strengthened amidst relaxation of Covid-19 restrictions. While Saudi Arabia's economic growth contracted by 7% in Q2 2020, more frequent PMI indicator revealed that growth in non-oil private sector rebounded in September. **The IHS Markit Saudi Arabia PMI jumped to 50.7 in September, crossing the 50 level for the first time since February.** Similarly, **the UAE PMI also returned to the expansionary zone, rising to 51, for the third time in four months. Dubai's non-oil private sector also bounced back in September, coming at 51.5, the highest reading in eleven months.** However, concerns on employment weighed on future growth prospects as businesses in both the two countries continued to cut jobs. In addition, the latest PMI levels in both the countries remain below the average level seen pre-Covid last year.

In issuance activity, Dubai paid USD750mn in redemptions and UAE's Tabreed agreed to issue USD1bn in new bonds or sukuk.

Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aaa2	Baa1	A1	Ba2	Ba3	Aa3	B3
S&P	A-	AA	-	AA-	B+	BB-	AA-	B
Fitch	A	AA	-	AA	B+	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	1,244.8	1.0	2.9	Saudi	0.86	-0.63	-137.02
EM LatAm TR	1,033.5	1.5	-0.6	UAE	0.45	-1.94	-166.06
EM EMEA TR	386.6	1.2	3.6	Kuwait	1.56	-	-118.75
EM Asia TR	665.0	0.3	4.9	Bahrain	2.25	0.00	-41.67
Bahrain TR	169.2	1.7	0.4	Oman	2.67	-	-16.03
Oman TR	118.0	3.6	-1.2	Qatar	1.21	27.73	-106.19
Kuwait TR	146.6	0.9	5.3	US	0.22	-1.35	-165.18
Qatar TR	148.1	1.1	9.0	12M interbank	Latest	-1w (bp)	YTD (bp)
Saudi Arabia TR	149.9	1.0	9.3	Saudi	0.98	-0.50	-133.79
UAE TR	144.0	0.8	6.5	UAE	0.80	0.75	-152.25
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	Kuwait	2.13	-	-106.25
Saudi Arabia	72.2	-14.4	15.1	Bahrain	2.68	0.00	-15.00
Abu Dhabi	40.8	-9.3	4.0	Oman	3.36	-	-3.00
Dubai	166.0	8.3	69.2	Qatar	1.36	13.80	-127.26
Kuwait	60.3	-3.0	20.8	10Y yield	Latest	-1w (bp)	YTD (bp)
Bahrain	334.95	-11.6	148.8	Saudi Arabia	2.01	-7.50	-116.30
Oman	445.9	-33.8	197.8	Abu Dhabi	1.61	-2.60	-94.80
Qatar	39.8	-9.0	2.5	Dubai	2.64	-6.00	-61.00
Egypt	440.9	-20.2	149.3	Kuwait	1.36	-1.30	-103.50
Turkey	508.7	-1.0	224.8	Bahrain	5.45	-17.20	84.00
US	20.1	-0.1	4.6	Oman	6.59	-51.40	104.40
Germany	13.2	0.4	-	Qatar	1.67	-8.10	-93.20

Note: Data as of 9<sup>th</sup> October 2020, \*Dewa rating used as proxy

## **Saudi non-oil private sector PMI jumps to expansionary territory for first time since February**

Saudi Arabia's non-oil private sector bounced back in September, breaking the six month long contraction trend, as demand firmed on relaxation of lockdown measures. The seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers' Index (PMI) jumped to 50.7 in September from 48.8 in August, crossing into the expansionary territory (above 50 level) for the first time since February. The negative impact of the VAT hike, which hurt business conditions in August, waned in September with business activity picking up, bolstered by improved sales growth. Unemployment continue to rise however, for the eighth consecutive month, raising concerns on job losses.

## **Meanwhile, the recovery in growth comes after recent reports signaled growth contraction in Q2 2020.**

Saudi Arabia's economic growth contracted by 7% yoy in Q2 2020, in line with the contraction trend seen in GCC due to low oil prices and Covid-19 led restrictions. Contraction was evident in both oil (-4.5%yoy) and non-oil sectors (-8.6% yoy), but deeper in the latter.

## **UAE non-oil sector PMI returns above 50 in September, highest in 11 months**

UAE's non-oil private sector rebounded in September, but job losses continued amidst cash flow issues. The seasonally adjusted IHS Markit UAE Purchasing Managers' Index (PMI), jumped to 51.0 in September from 49.4 in August, returning to expansionary territory for the third time in four months. This marked the highest PMI reading in eleven months, yet still below the average level seen last year. New orders rose in September, helped by company discounts and pick-up in business activity due to robust consumer demand. However, job concerns remained with businesses continuing job cuts for the ninth consecutive month.

## **Dubai non-oil private PMI expands for the third month**

Dubai business conditions further improved in September, despite the record high rise in daily Covid-19 cases. The seasonally adjusted IHS Markit Dubai PMI jumped to 51.5 in September, from 50.9 in August, staying in expansionary zone (above 50 level) for the third month in a row. New businesses rose at faster pace compared to August while growth in demand was the highest in 10 months. Employment continued to decline, albeit at the slowest rate in seven months, helped by the improving business confidence.

## **Dubai repaid USD750mn bonds due in October**

The government of Dubai repaid USD750mn in bonds which matured on October 5, according to the statement released by the department of finance. Dubai had sold USD2bn in bonds in September, tapping the public bond markets for the first time in six years.

## **UAE's Tabreed approved USD1bn bond or sukuk issuance**

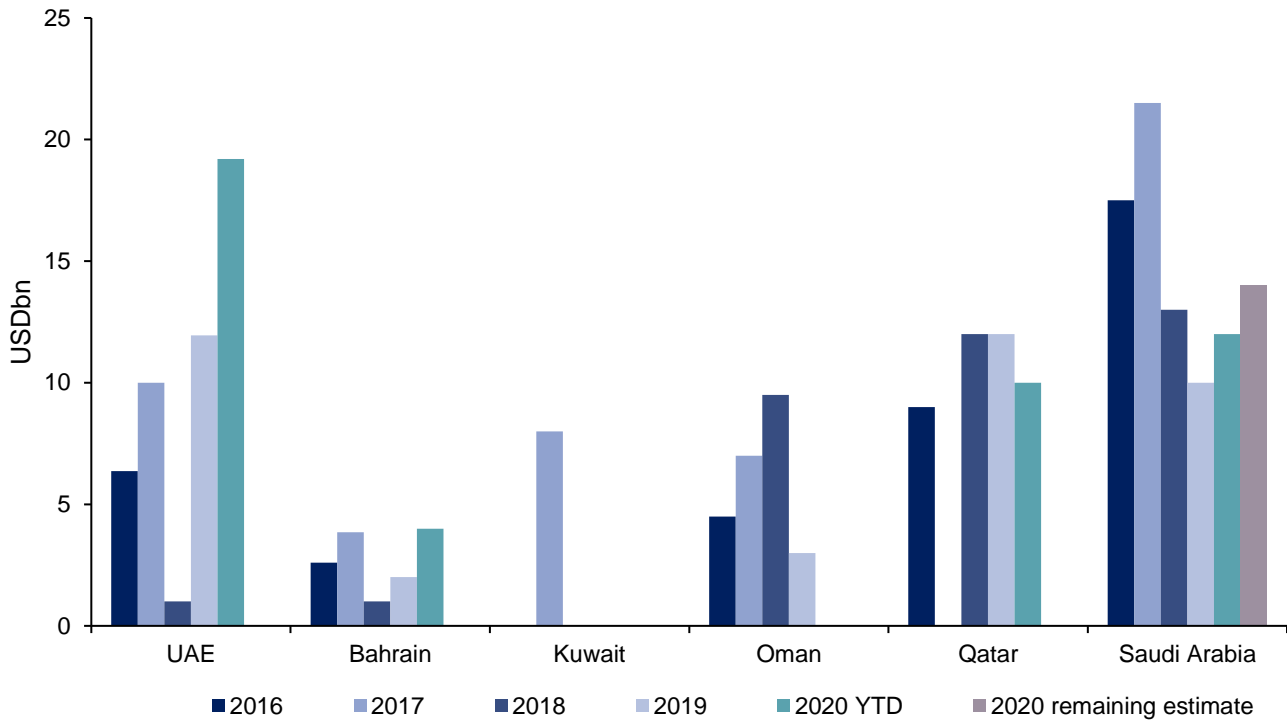
The shareholders of Tabreed, also known as the National Central Cooling Company, agreed to a bond or sukuk issuance up to USD1bn during the company's general assembly meeting. The funds raised through the issuance will be used to finance more acquisitions and general corporate purposes. The bond or sukuk could be issued with a maturity of up to 30 years and will be available to qualified investors. Tabreed acquired an 80% stake in Emaar's Downtown Dubai district cooling business in April.

## **Moody's ratings expects more consolidation of GCC banks**

Moody's rating agency anticipates that mergers and acquisition activity in the GCC banking sector is set to rise amidst the challenging economic backdrop. The double whammy of low oil prices and Covid-19 restrictions is impacting the profitability of GCC banks through slower credit growth, slimmer net interest margins and higher provisioning for bad loans. This will lead to the possibility of more bank mergers purely by financial considerations. So far, bank mergers in the GCC have been mainly driven by shareholders consolidating their positions in different banks. However, the rating agency expects future mergers to be driven fully by financially driven transactions, particularly among smaller banks crowded out by larger competitors.

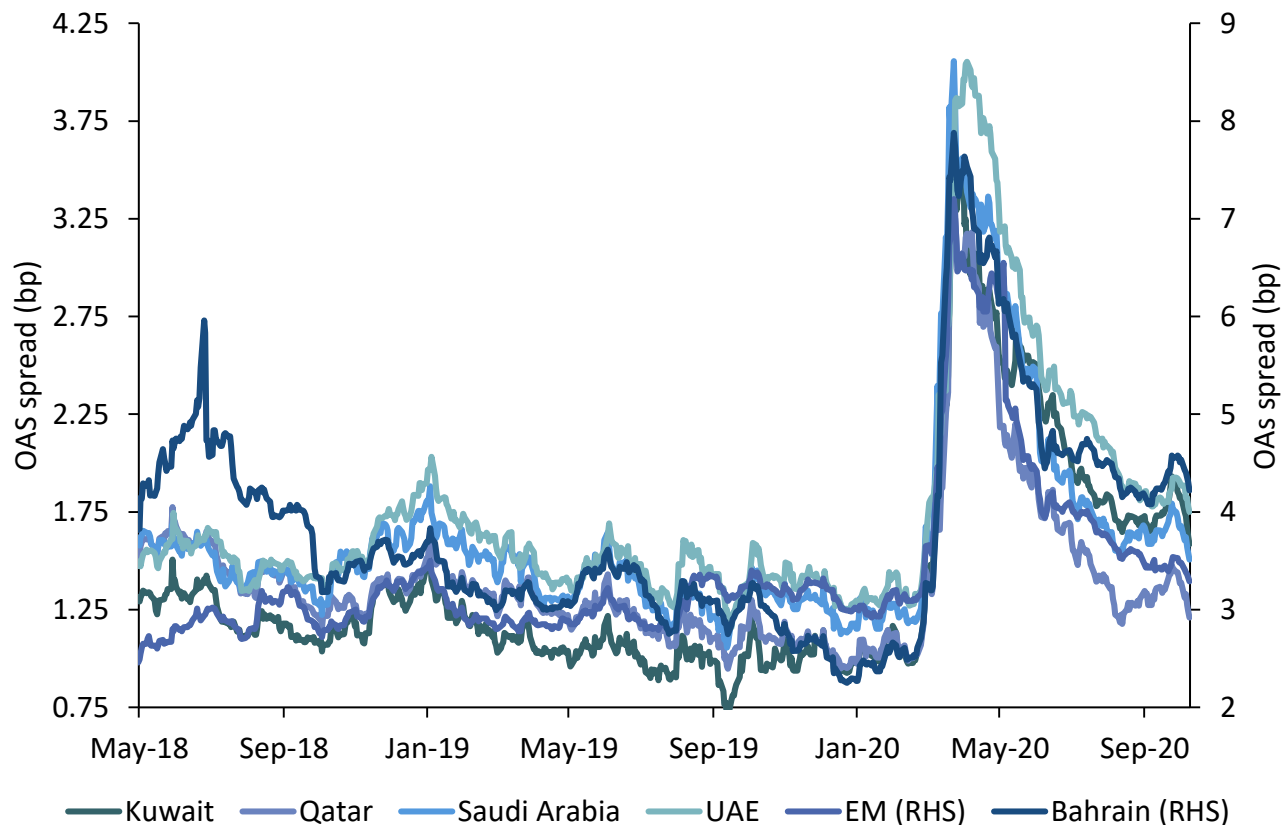
## Appendix

### Saudi Arabia to borrow USD14bn more in 2020



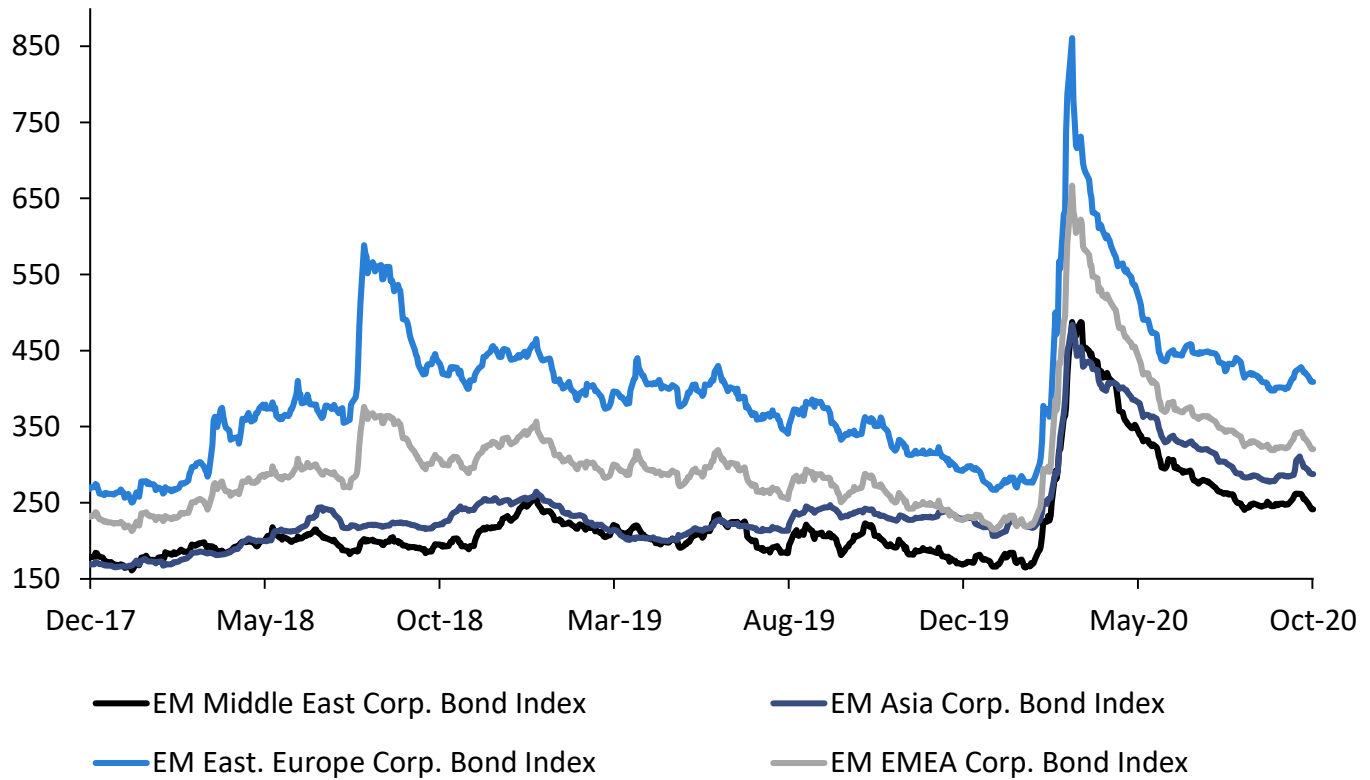
Source: Bloomberg, ADCB

### Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



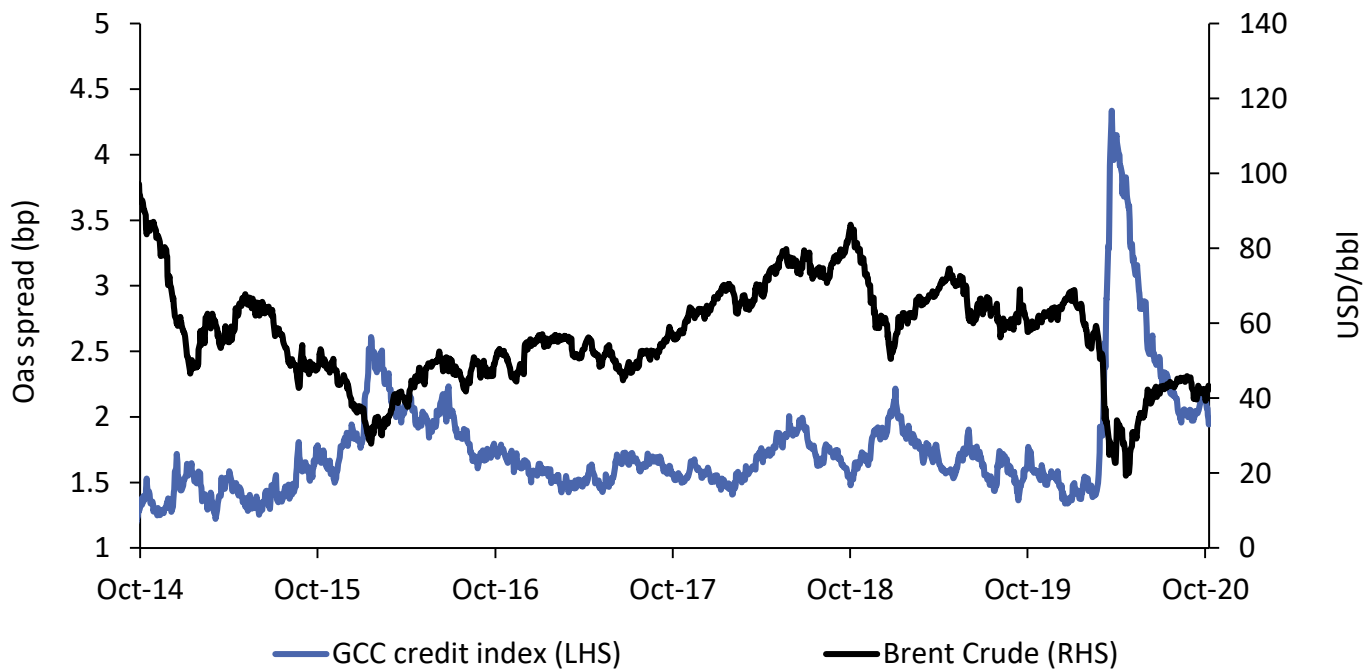
Source: Bloomberg Barclays Sovereign Bond Indices, ADCB

## Emerging markets versus Middle East spread



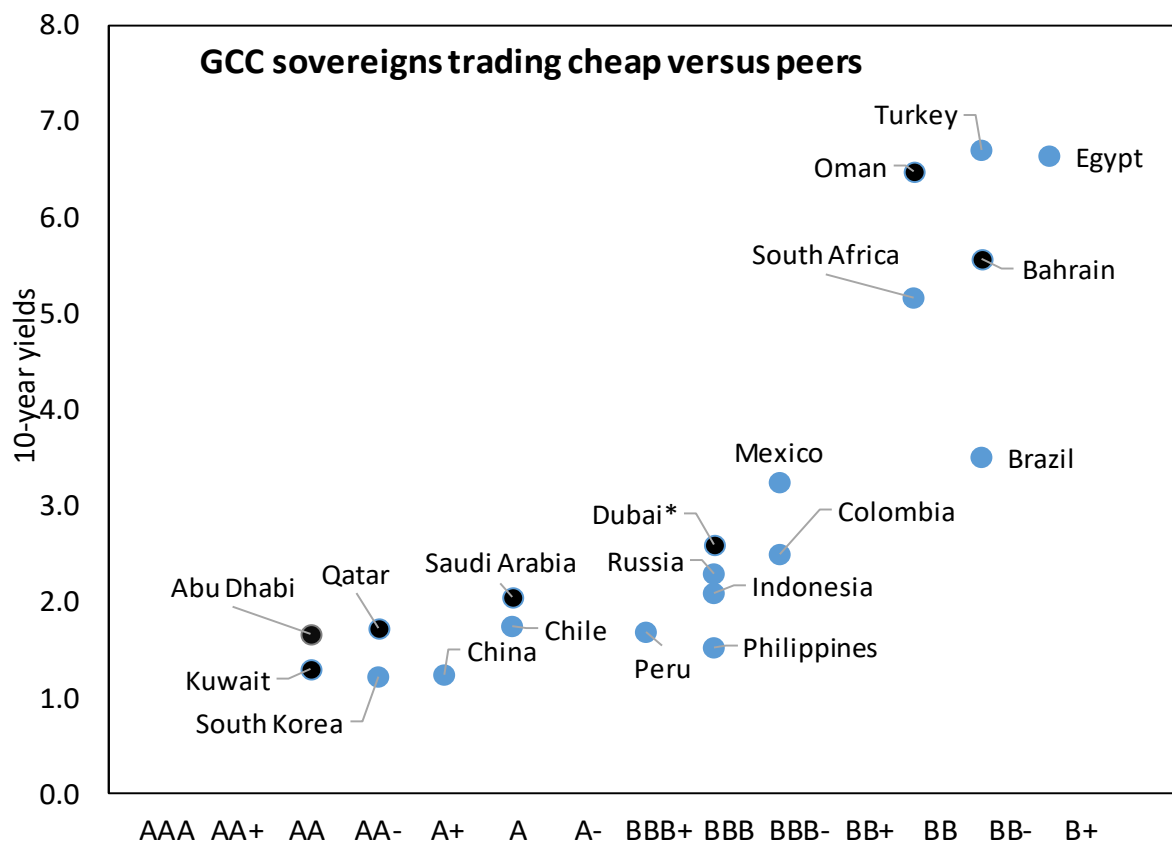
Source: Credit Suisse Corporate Bond Indices, ADCB

## GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

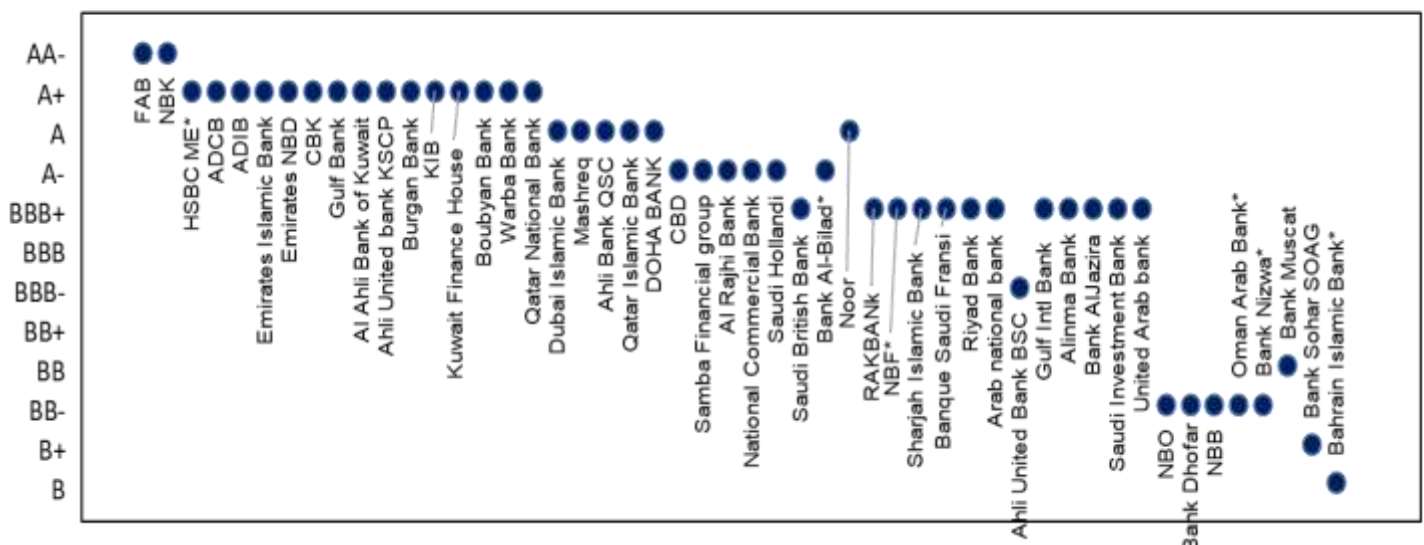
## 10yr yield versus Credit ratings (EM vs GCC)



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

## GCC Financials Credit Rating

### GCC Financials

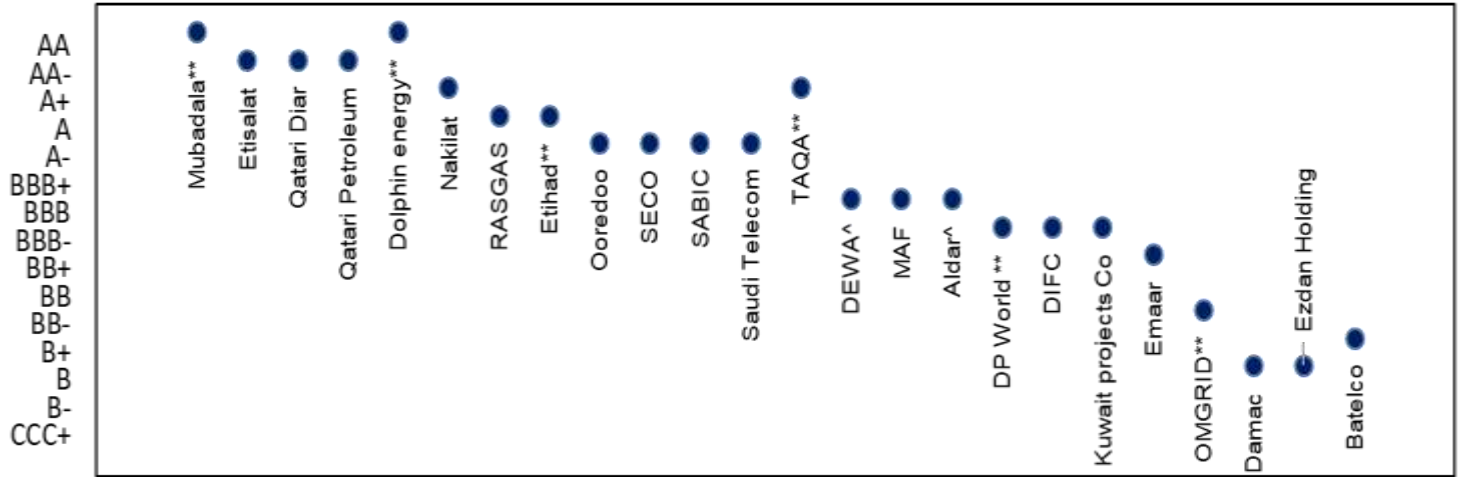


Note: The ratings refer to Fitch ratings, \*S&P rating used as substitute where the corporate/bank not rated by Fitch rating

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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