

## GCC Fixed Income Weekly Review

Global bond markets ended mixed, despite equity market sell-off, with rally in sovereign bonds losing momentum in the latter half of the week. Corporate bonds and emerging market bonds still held up well. The risk-off sentiment drove the 10yr UST yields lower but the decline in yields paused after the release of Friday's jobs report. In Europe, German bund yields declined, driven by the safe-haven appetite.

Emerging market bonds registered weekly gains despite the risk off sentiment, dollar strength and sell-off in risk assets. Within GCC, all countries recorded weekly gains but Oman saw the largest gain. CDS spreads across GCC mostly narrowed, undeterred by the decline in oil prices. In the USD sovereign bond market, bond yields declined the most in Oman, Dubai and Bahrain, reflecting the preference for higher yielding assets. Saudi bond yields edged slightly higher, in line with widening in CDS spreads. The latest PMI data has raised concerns on the path of recovery for two GCC economies- UAE and Saudi Arabia. In UAE, the PMI fell in the contraction territory in August for the first time in three months, putting a pause to the recovery. Rapid job losses outpaced the expansion in business activity while future business confidence also remained subdued. In Saudi, the non-oil private sector PMI declined below 50 in August, after stabilizing in July, as hike in VAT rates weighed on consumer spending and business activity.

Issuance activity picked up as GCC sovereigns and corporates returned to the bond market after the summer lull. Dubai returned to the bond market for the first time in six years, raising USD2bn while receiving bid orders of over USD10bn. Dubai issuance comes after the emirate of Abu Dhabi tapped the bond market late August, selling USD5bn in a multi-tranche bond deal which also included a 50yr bond. Bahrain is next in line and is planning to issue bonds in the range of USD500mn in the coming weeks. In the corporate bond market, Saudi's SABIC sold USD1bn in bonds, marking one of the largest corporate bond issuance this year. In the coming weeks, FAB plans to issue a new perpetual.

Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aaa2	Baa1	Aa2	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	1,252.0	0.5	3.5	Saudi	0.89	-0.29	-134.14
EM LatAm TR	1,045.7	0.6	0.5	UAE	0.53	6.01	-158.03
EM EMEA TR	387.1	0.7	3.8	Kuwait	1.63	6.25	-112.50
EM Asia TR	668.9	0.2	5.5	Bahrain	2.28	0.00	-38.34
Bahrain TR	171.0	0.5	1.5	Oman	2.68	6.00	-14.95
Oman TR	119.1	1.4	-0.3	Qatar	1.03	6.04	-123.63
Kuwait TR	146.0	0.3	4.8	US	0.25	0.35	-162.28
Qatar TR	148.0	0.6	9.0	12M interbank	Latest	-1w (bp)	YTD (bp)
Saudi Arabia TR	149.2	0.9	8.8	Saudi	0.99	-0.43	-131.86
UAE TR	143.7	0.6	6.3	UAE	0.83	7.92	-149.21
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	Kuwait	2.13	0.00	-106.25
Saudi Arabia	84.6	5.0	27.5	Bahrain	2.68	0.00	-15.00
Abu Dhabi	46.1	-2.4	9.4	Oman	3.35	-0.50	-4.00
Dubai	159.9	-13.7	63.1	Qatar	1.26	-6.88	-137.00
Kuwait	54.0	-5.0	14.5	10Y yield	Latest	-1w (bp)	YTD (bp)
Bahrain	311.61	-25.8	125.4	Saudi Arabia	2.17	6.20	-99.90
Oman	440.8	-21.8	192.5	Abu Dhabi	1.56	-5.00	-99.90
Qatar	45.7	-2.2	8.4	Dubai	2.65	-17.70	-59.60
Egypt	440.3	-9.0	148.7	Kuwait	1.29	-7.70	-110.00
Turkey	521.1	-10.8	237.2	Bahrain	4.81	-13.80	20.30
US	23.3	-	7.8	Oman	5.96	-34.30	41.10
Germany	12.8	-0.1	-	Qatar	1.67	-9.50	-93.60

Note: \*Dewa rating used as proxy

## **Dubai returns to public debt market after six years**

The government of Dubai tapped the bond market, for the first time in six years. Dubai raised USD1bn in 10yr sukuk, or Islamic bonds and USD1bn in 30yr conventional bonds. The deal was oversubscribed, receiving bids over USD10bn, more than USD6.5bn for the sukuk and over USD3.5bn for the bonds. The initial pricing tightened by 40bp for the sukuk, finally priced at 210bp over mid-swaps while the bonds were sold at 4%, 37.5bp tighter than the initial price marketed. Fund managers were the largest buyers, purchasing 52% of sukuk and 78% of the conventional bonds while banks and private banks purchased 44% of the sukuk and 17% of the conventional bonds. Middle-east investors were the biggest buyers of the sukuk, buying 48% while UK and European investors purchased half of the 30yr conventional bonds.

## **Abu Dhabi tapped the bond market again with a three-tranche deal**

The emirate of Abu-Dhabi sold USD5bn in a three-tranche deal with the emirate coming back to the bond market in a bid to raise its cash buffers. The emirate raised USD2bn in 3yr bonds, USD1.5bn in 10yr notes and USD1.5bn in 50yr bonds. The 50yr bond marks the longest maturity of a bond issued by a GCC country. Even with longest maturity issuance, the bond deal received strong demand with the bond deal oversubscribed by 4.8x and getting orders from over 60 accounts while the order book reached USD24bn. The 3yr bond was priced at just 0.83%- the lowest yield historically issued by a GCC sovereign, 10yr bond was priced at 1.732% and 50yr bond priced at 2.7%. The strong appetite for the bond deal highlights investor confidence in the emirate's economic fundamentals and credit outlook.

## **UAE's non-oil private sector PMI contracted in August**

The UAE's non-oil private sector recorded a contraction in August for the first time in three months, raising doubts on path to recovery ahead as record job losses more than offset the expansion in business activity. The seasonally adjusted IHS Markit UAE fell below the 50 level in August. Business activity expanded for the third consecutive month, albeit at a slower pace. However, the PMI Employment Index slumped to its lowest level since data collection started 11 years ago, highlighting the contraction in workforces with firms trying to cut down employee costs. The output and new orders sub-indices signaled that demand and activity continued to expand in August.

## **Saudi's non-oil private sector PMI also contracted in August after the tax hike**

Saudi Arabia registered a contraction of business activity in August, reversing the signs of stabilization seen in July, as the hike in VAT weighed on demand. The seasonally adjusted IHS Markit Saudi Arabia PMI fell to 48.8 in August from 50.0 in July. Business activity declined as the rise in VAT impacted consumer spending. Employment also fell for the sixth month in a row, albeit the pace of decline was the slowest since May.

## **Bahrain is planning another bond issuance for this year**

Bahrain is planning to tap the international bond markets again this year as the country aims to bolster its finances. The country has sent proposal request to banks to organize a potential issuance of USD denominated benchmark bonds. The issuance size could fall in the upper range of USD500mn, comprising of both conventional bond and a sukuk. Bahrain had raised USD2bn in May as the country now faces a wider budget shortfall, aggravated by the pandemic and decline in oil prices.

## **Saudi Arabia's SABIC raised USD1bn in dual-tranche deal**

Saudi Basic Industries Corp (SABIC), the world's fourth-biggest petrochemicals firm, raised USD1bn in dual-tranche bond deal. The deal comprised of USD500mn in 10yr bonds and USD500mn in 30-year Formosa bonds (bonds sold in Taiwan by foreign borrowers and denominated in currencies other than the Taiwanese dollar). The bond deal attracted strong demand with bid orders exceeding USD8bn. The 10yr bond was issued at 155bp over midswaps and 30yr bond was issued at 3%.

## **FAB planning to issue a new perpetual**

First Abu Dhabi Bank is planning to issue Additional Tier 1 (AT1) bonds as early as September. The issue size could fall in the range of USD750mn. In June, FAB had redeemed USD750mn in AT1 bonds on their first call date.

## **Qatar National Bank plans to issue 5yr CNY-denominated bonds**

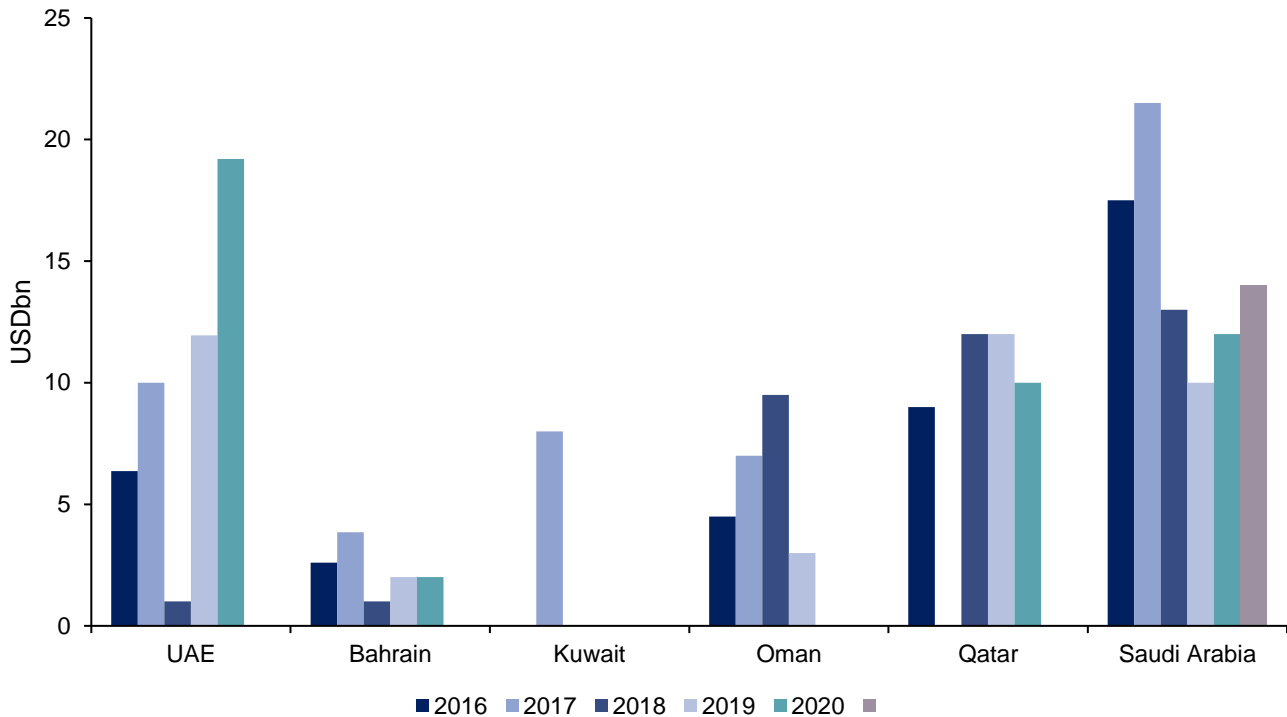
Qatar National Bank plans to issue 5yr CNY-denominated bonds at a fixed rate of 3.8% which it will use for general corporate purposes. Credit Agricole has been hired to arrange the deal and the bonds will be listed on the London Stock Exchange and Taipei Exchange.

## **Qatar's Ahli Bank sold USD500mn in 5yr bonds**

Qatar's Ahli Bank raised USD500mn in 5yr bonds, issued at 165bp over midswaps. The bond deal received more than USD1.9bn in orders. The initial marketed price for the bonds was at around 190bp over midswaps.

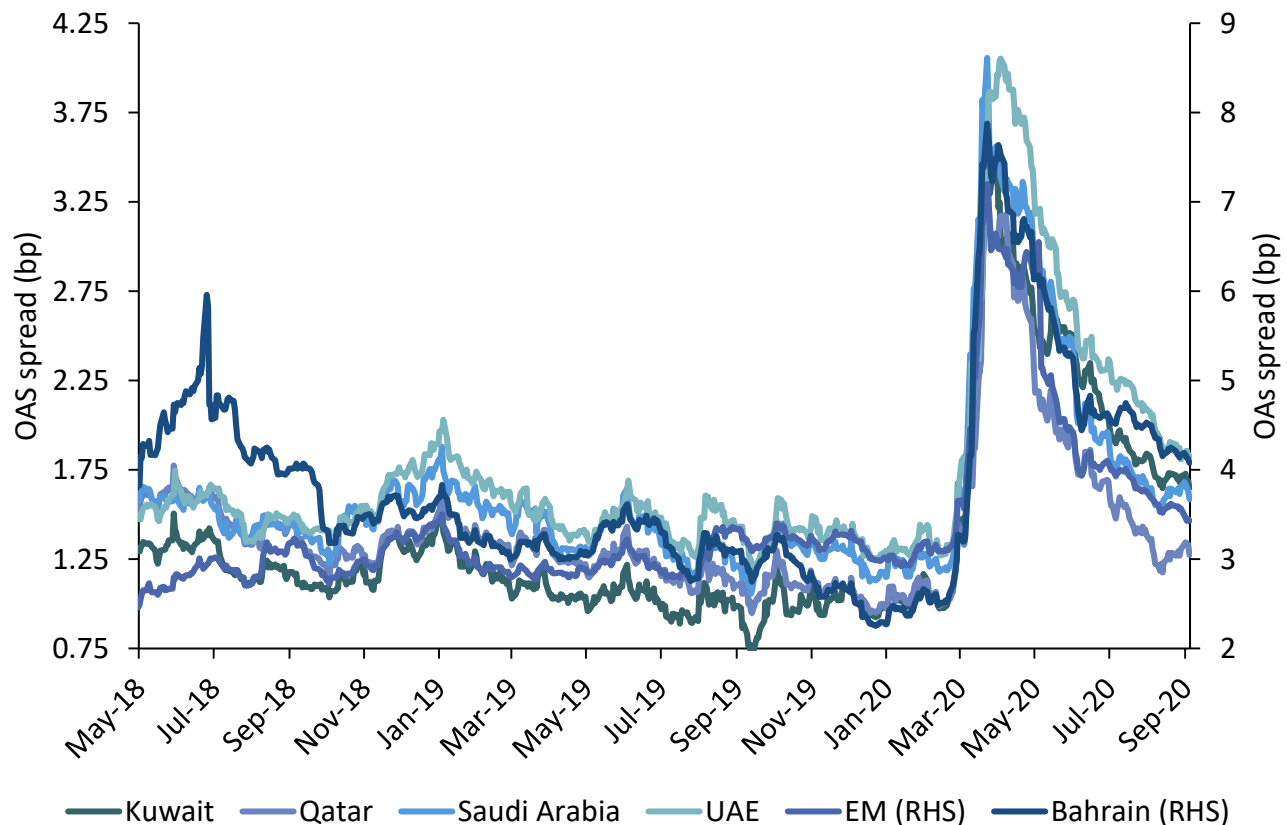
## Appendix

### Saudi Arabia to borrow USD14bn more in 2020



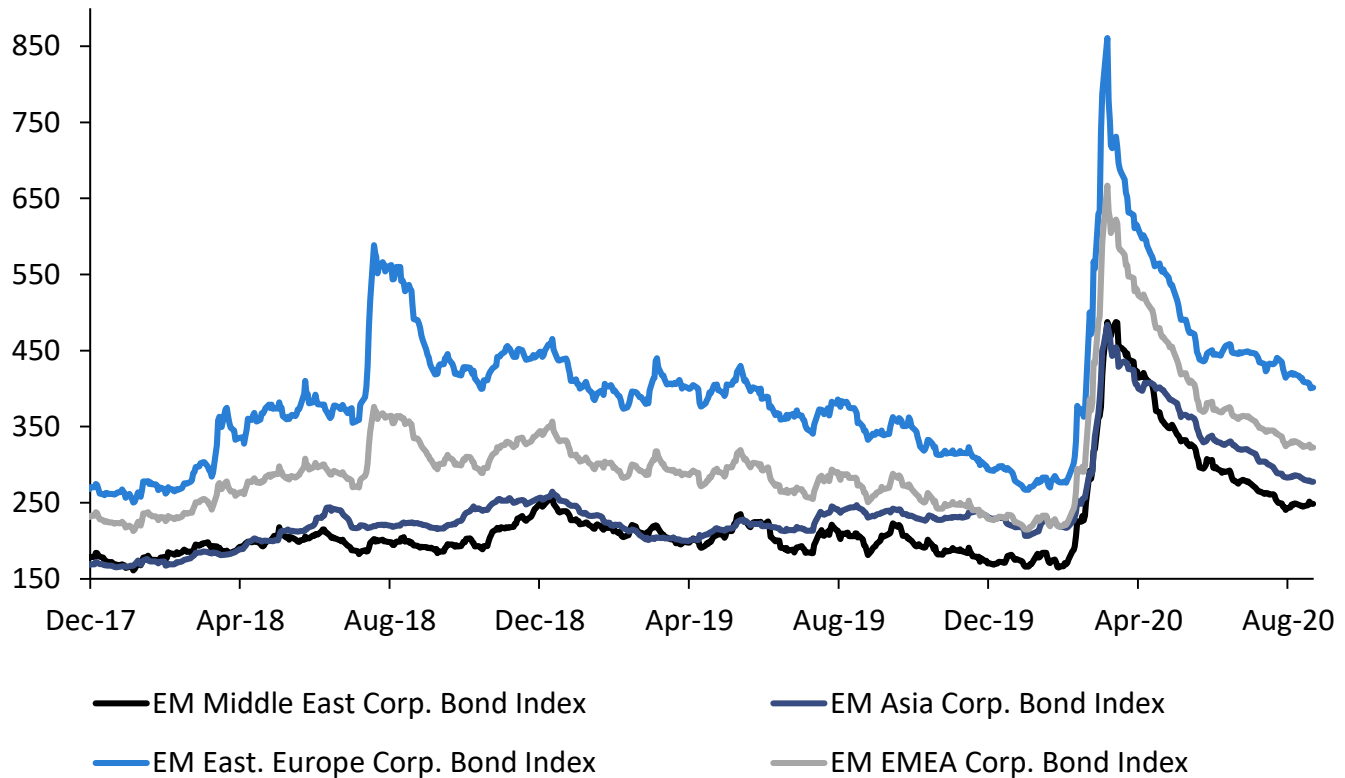
Source: Bloomberg, ADCB

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



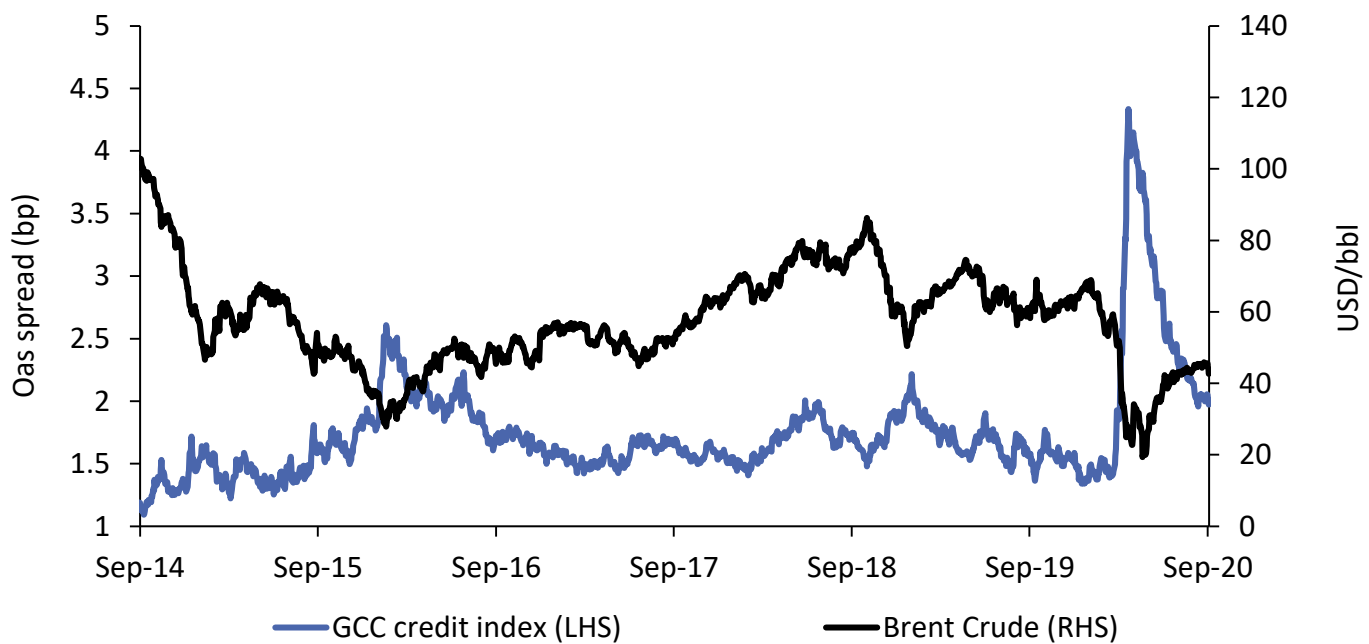
Source: Bloomberg Barclays Sovereign Bond Indices, ADCB

## Emerging markets versus Middle East spread



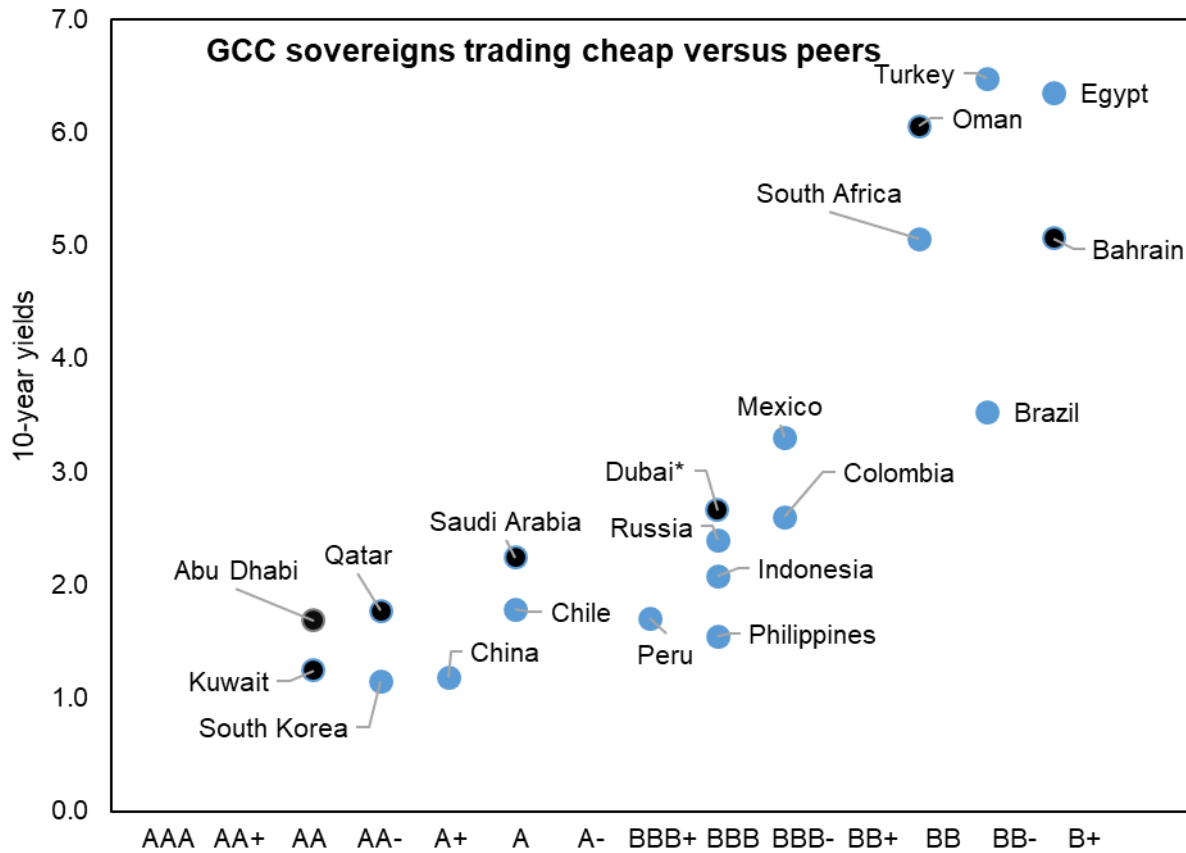
Source: Credit Suisse Corporate Bond Indices, ADCB

## GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

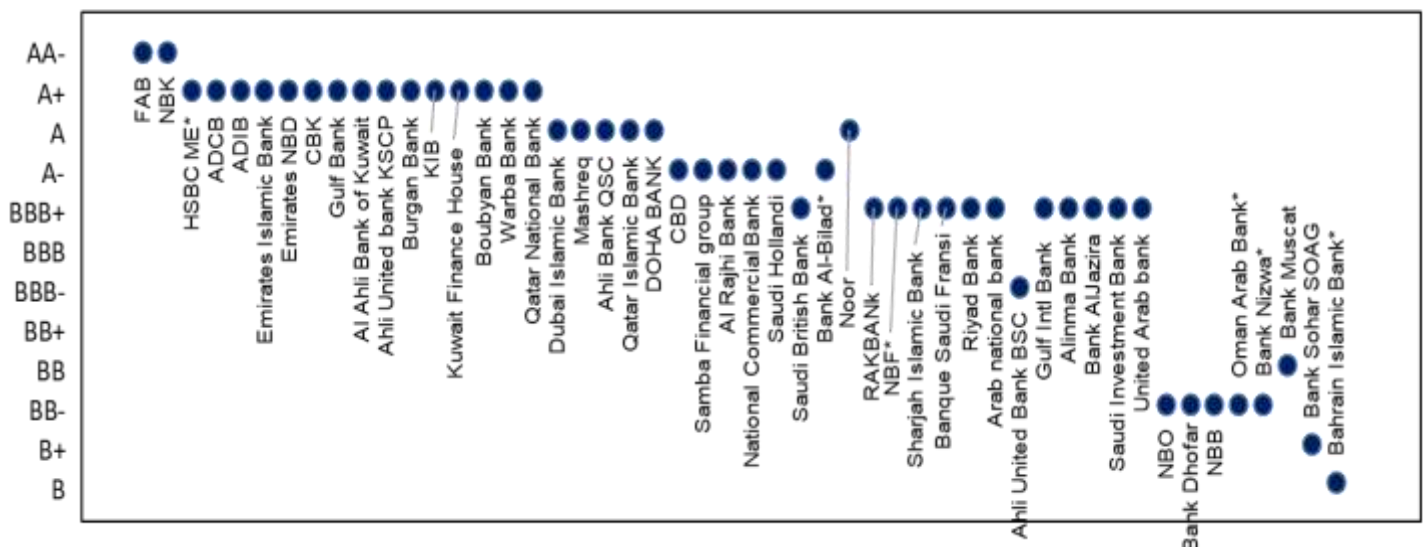
## 10yr yield versus Credit ratings (EM vs GCC)



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

## GCC Financials Credit Rating

### GCC Financials



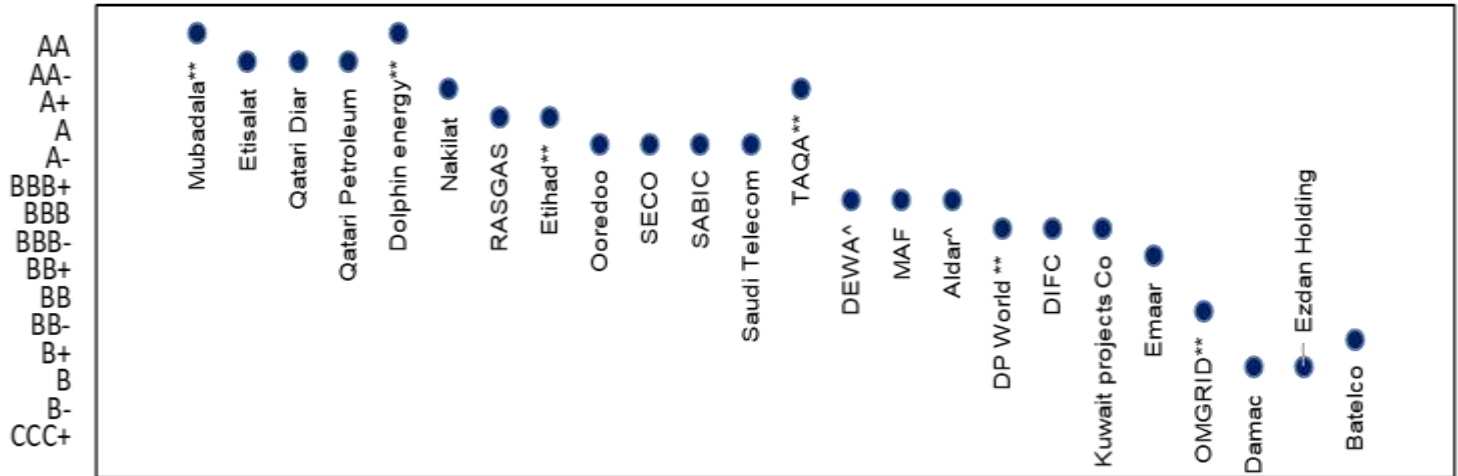
Note: The ratings refer to Fitch ratings, \*S&P rating used as substitute where the corporate/bank not rated by Fitch rating

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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