



GCC Fixed Income Chart Book: 1H 2018 Review

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Foreword / Disclaimer

Welcome to our 1H'2018 chart book for the GCC fixed income market. The idea is very simple – to give those of you who follow this market a quick snapshot of some of the key points in terms of the following:

- Primary Market issuance in the first half of 2018 and the overall trend
- Relative value analysis and developments in the GCC bond market
- Secondary Market performance of key instruments (snapshot from 29th December 2017 to 3rd July 2018)

We have deliberately made the report text-light in an attempt to make it easier to digest. Hopefully you will find it both interesting and useful.

Please click [here](#) to view our recent publications on MENA and Global Markets

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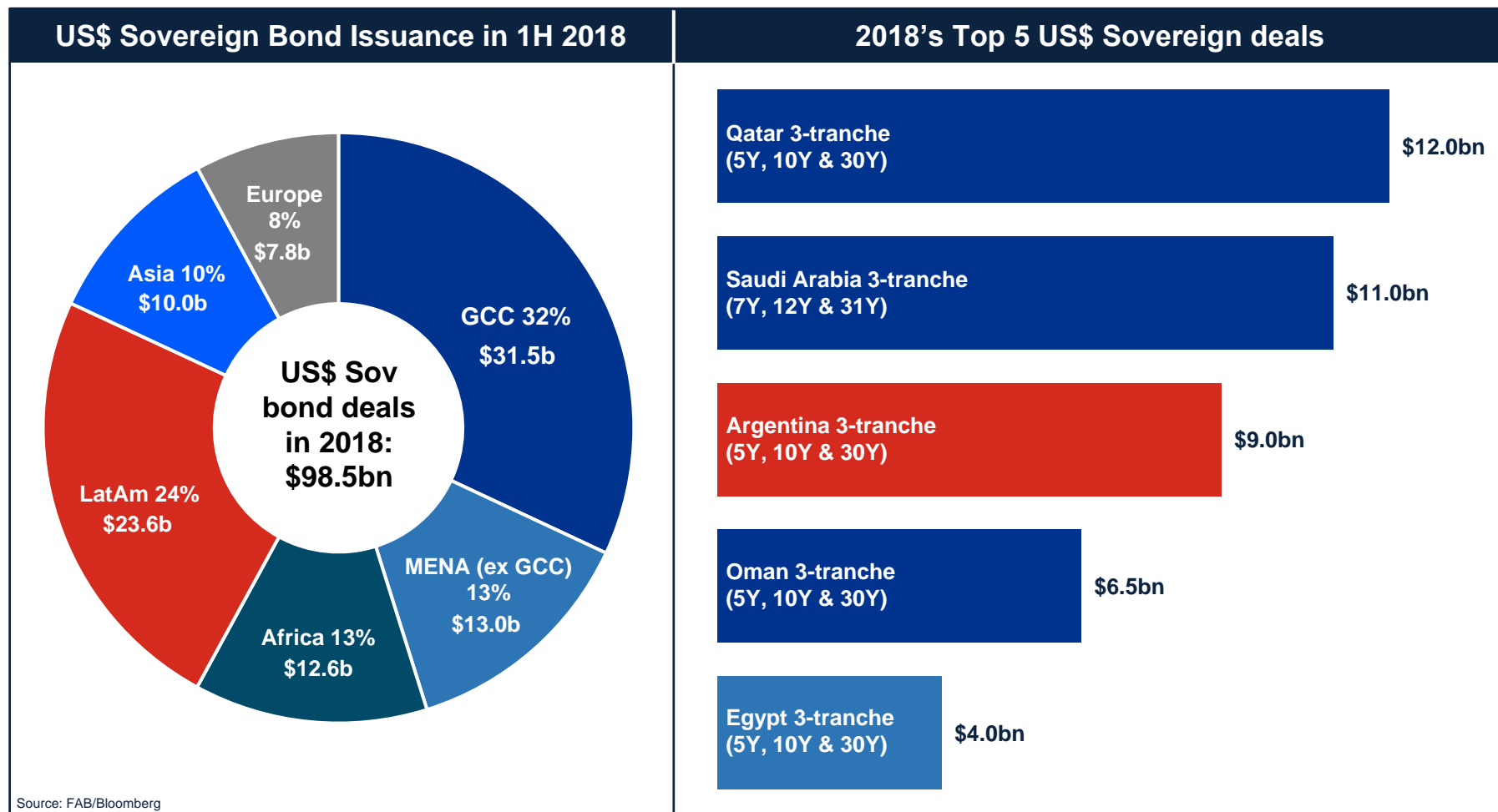
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GCC tops 2018 YTD EM Sovereign bond issuance

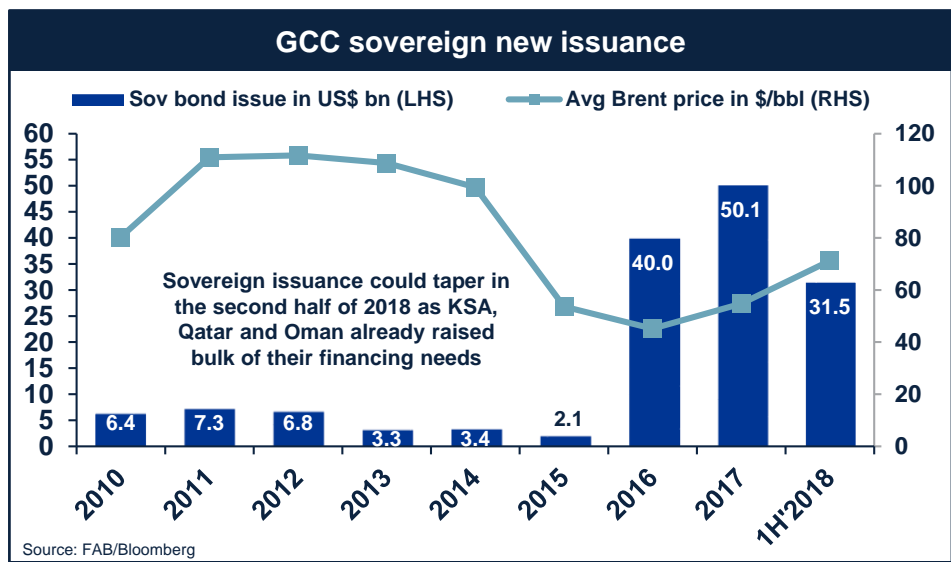
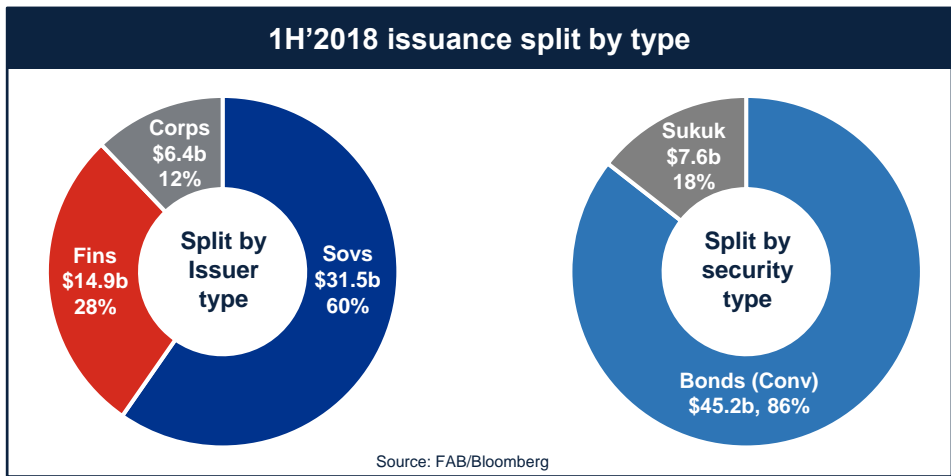
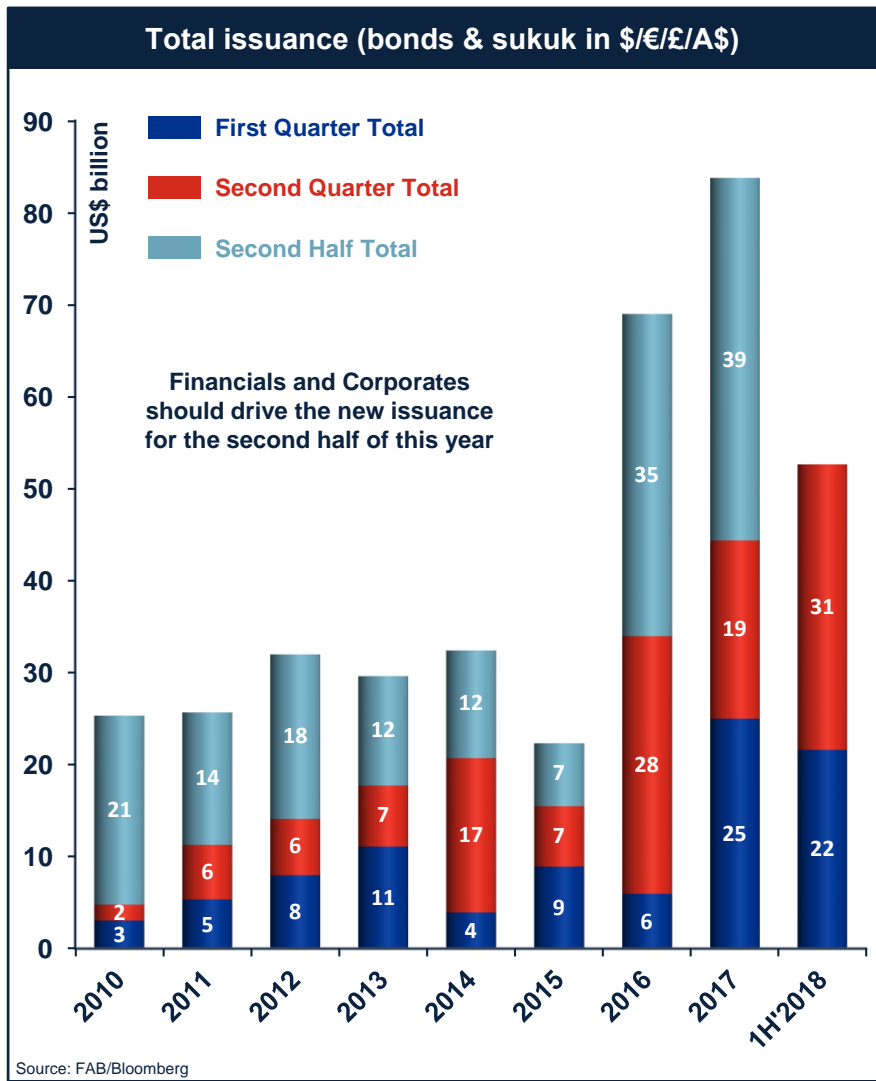
GCC Eurobond market saw a paradigm shift since 2016 as GCC sovereigns, particularly the Kingdom of Saudi Arabia (KSA), looked towards the international debt market to fund their fiscal budget deficit owing to low oil price environment. Prior to 2016, the most regular sovereign issuers from the GCC were Dubai, Qatar and Bahrain.

Within less-than-three-years, the KSA government has managed to build a robust yield curve, supported by strong investor appetite in both primary and secondary market. The KSA curve is indeed now one of the most active sovereign curves in the GCC & EM.



Source: FAB/Bloomberg

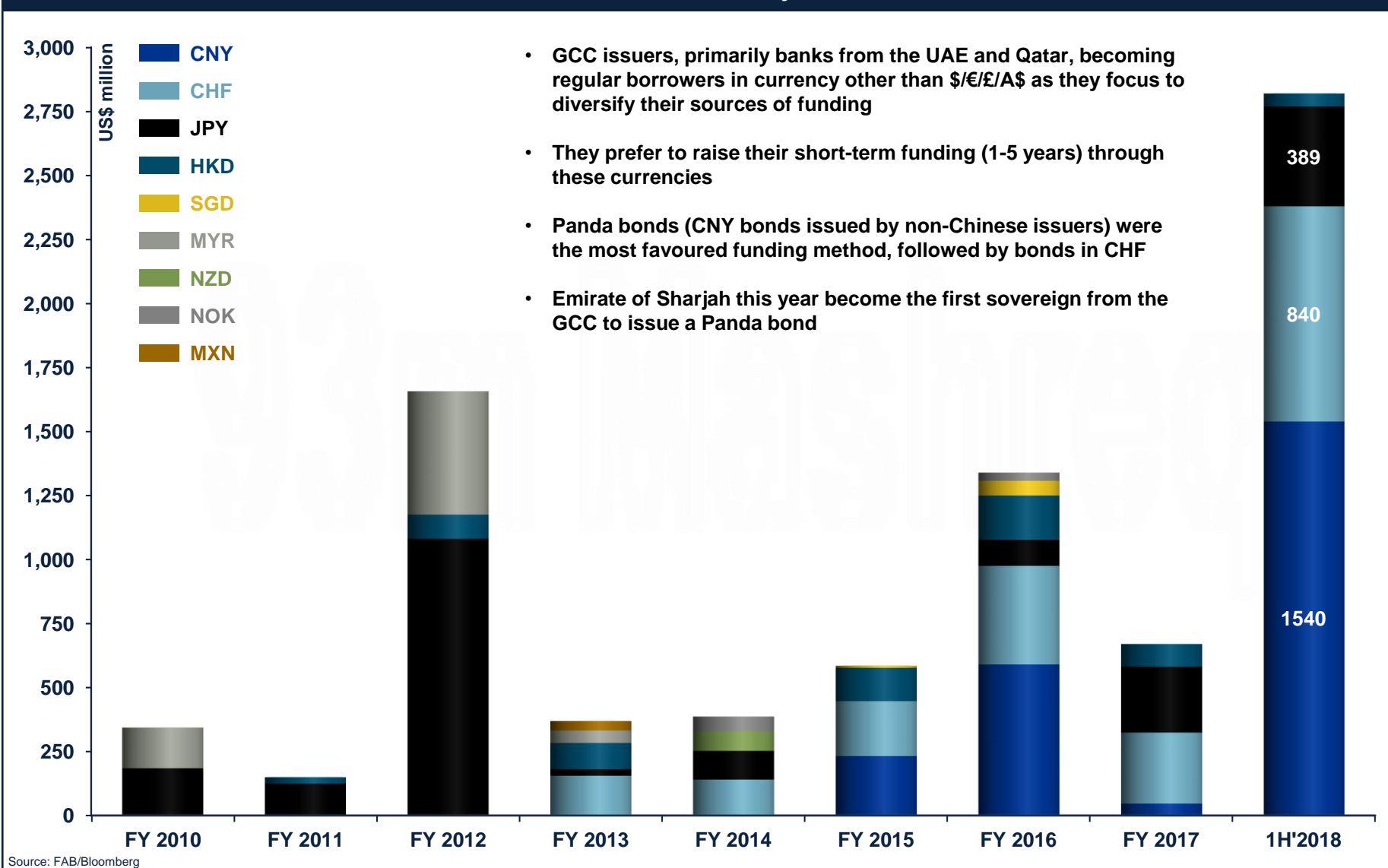
And sovereign issuance continue to dominate the primary market in GCC, which yet again experienced a record first half



For the above analysis we have considered major hard currency (\$/€/£/A\$) bonds and sukuk issuances from the six nations in the GCC. This includes both fixed and floating rate issuances of \$100m or above and maturity of 1-year or above.

GCC financial institutions becoming a regular issuer in Asia

Total Eurobond issuance in currency other than \$/€/£/A\$



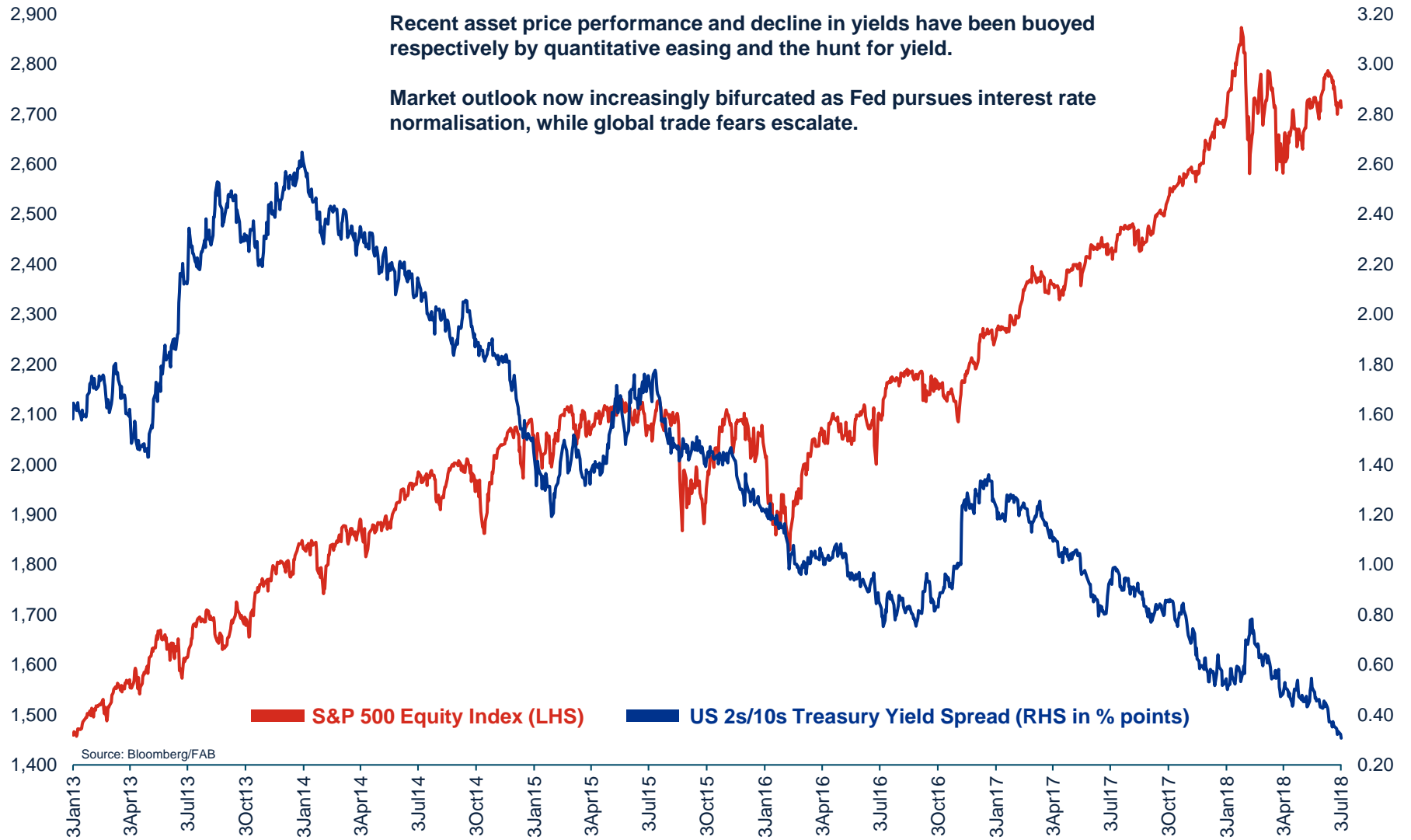
Source: FAB/Bloomberg

Macro outlook now increasingly bifurcated

U.S. Treasury Yield Spread vs S&P 500 Equity Index

Recent asset price performance and decline in yields have been buoyed respectively by quantitative easing and the hunt for yield.

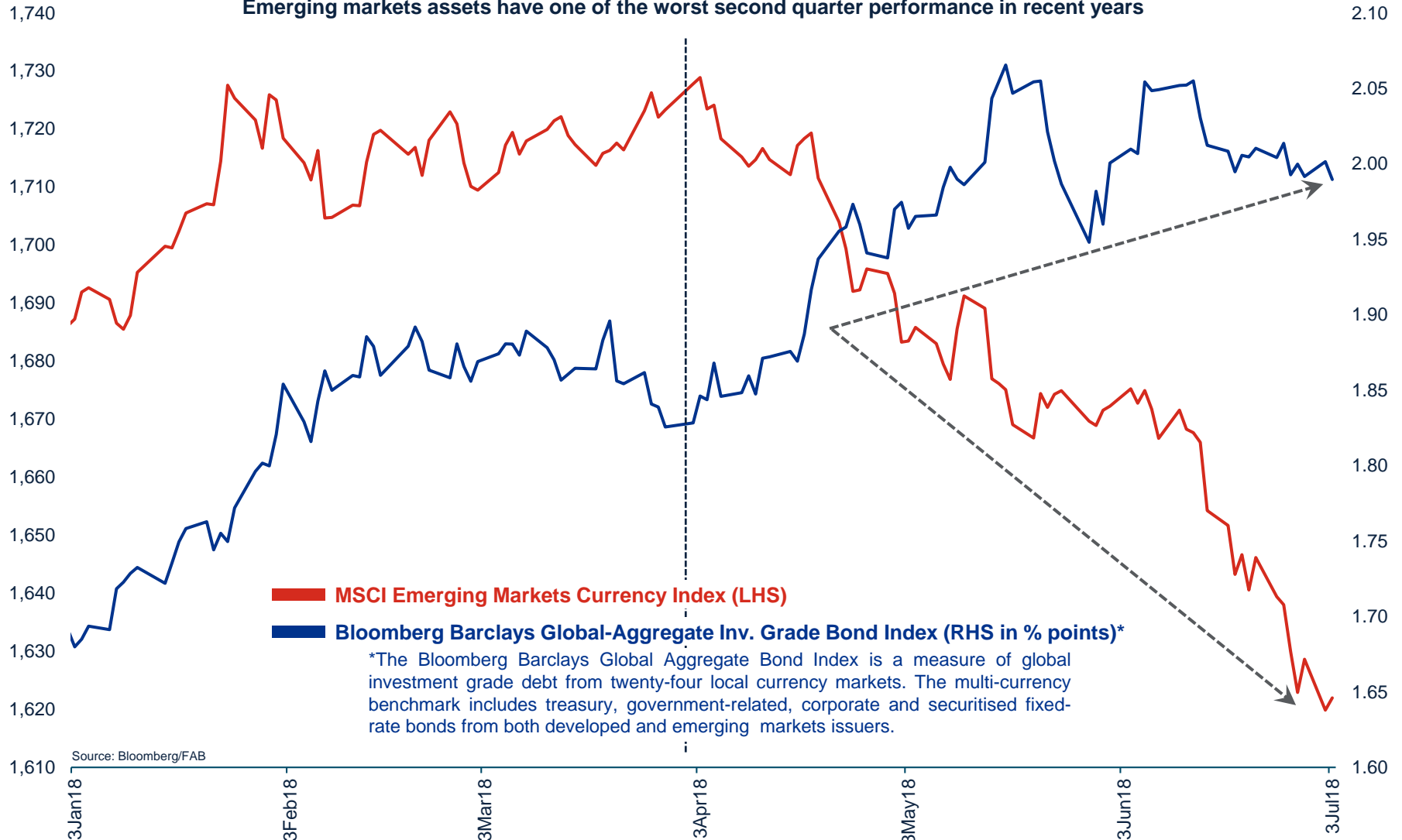
Market outlook now increasingly bifurcated as Fed pursues interest rate normalisation, while global trade fears escalate.



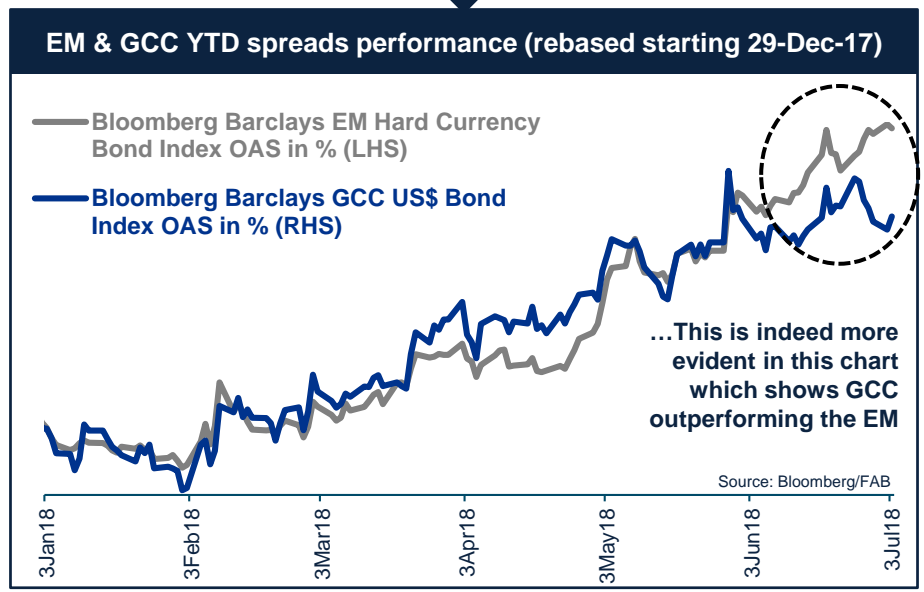
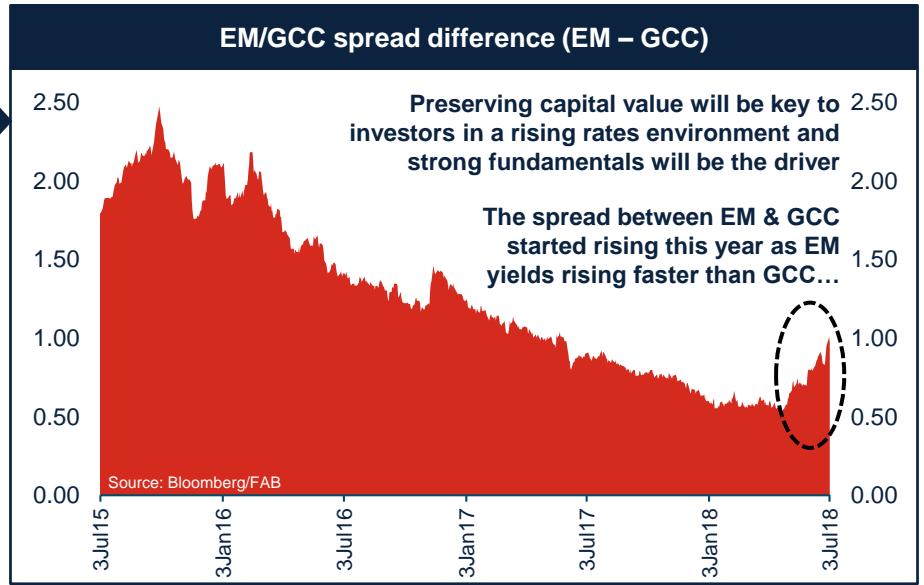
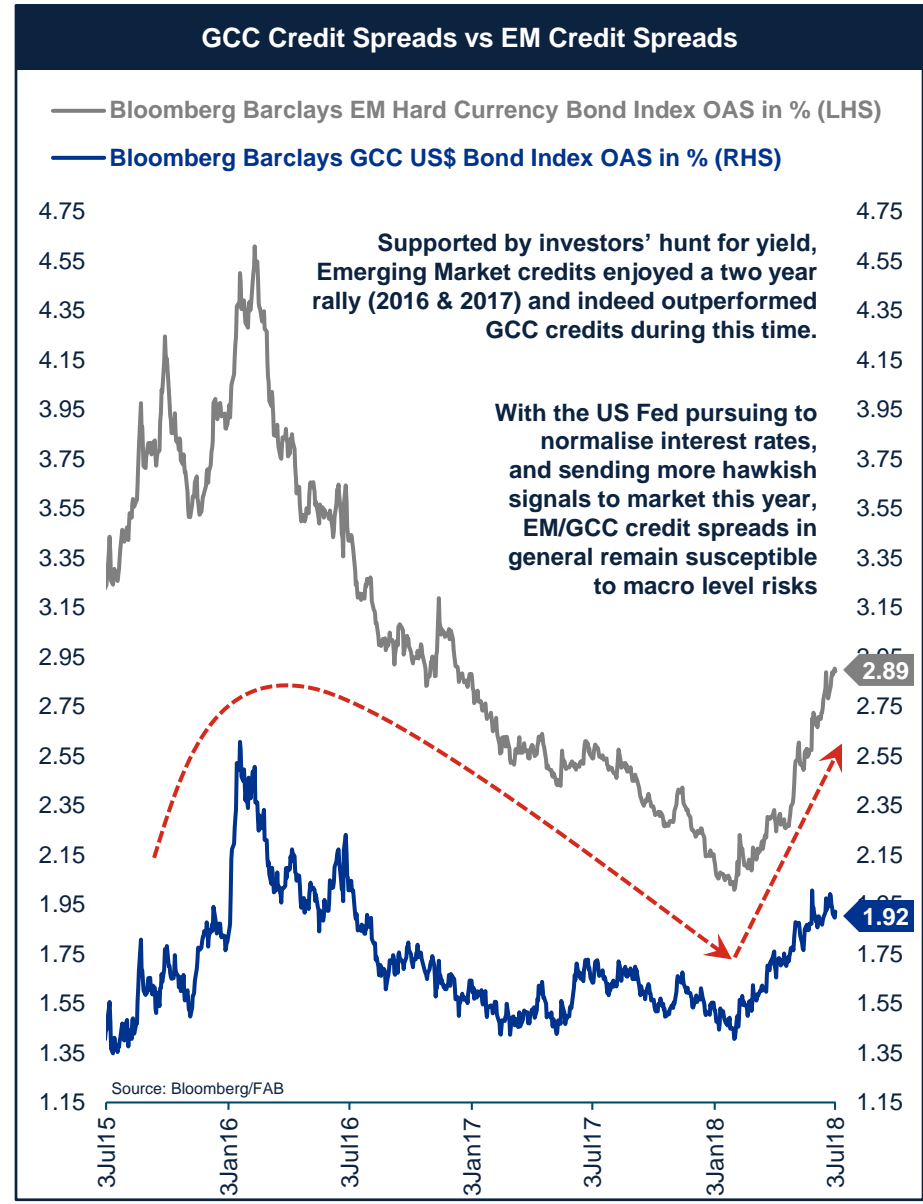
Emerging markets assets been worst hit this year

Global bond yields rising, along with strengthening dollar, pressuring emerging markets assets

Emerging markets assets have one of the worst second quarter performance in recent years



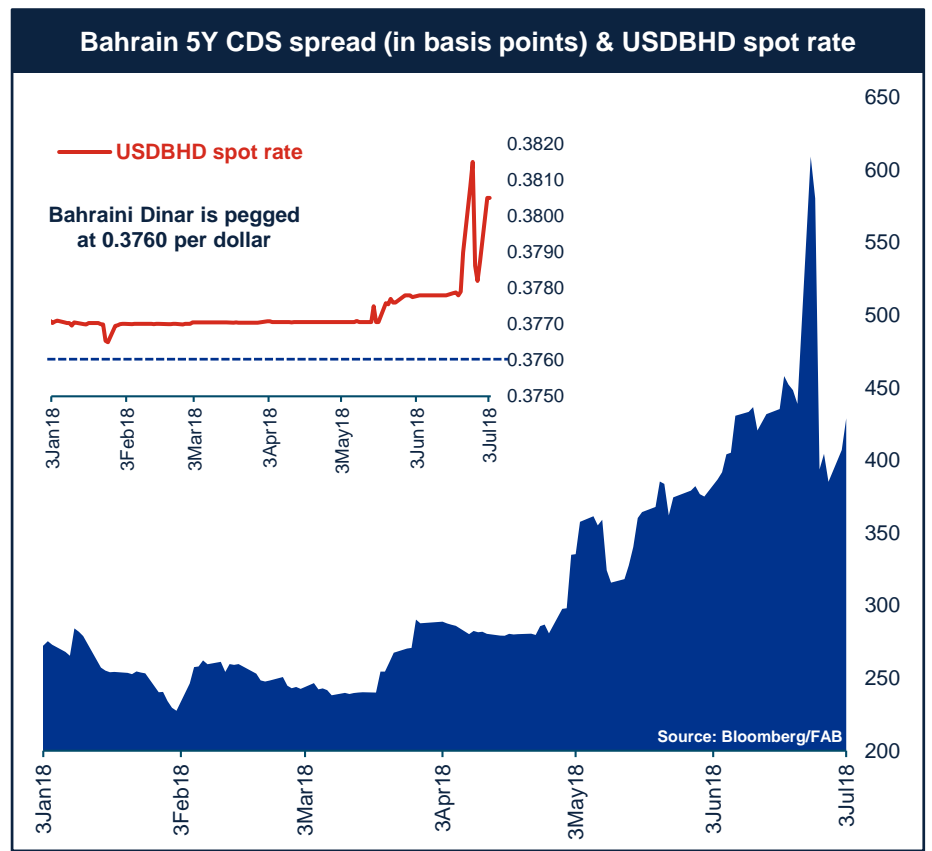
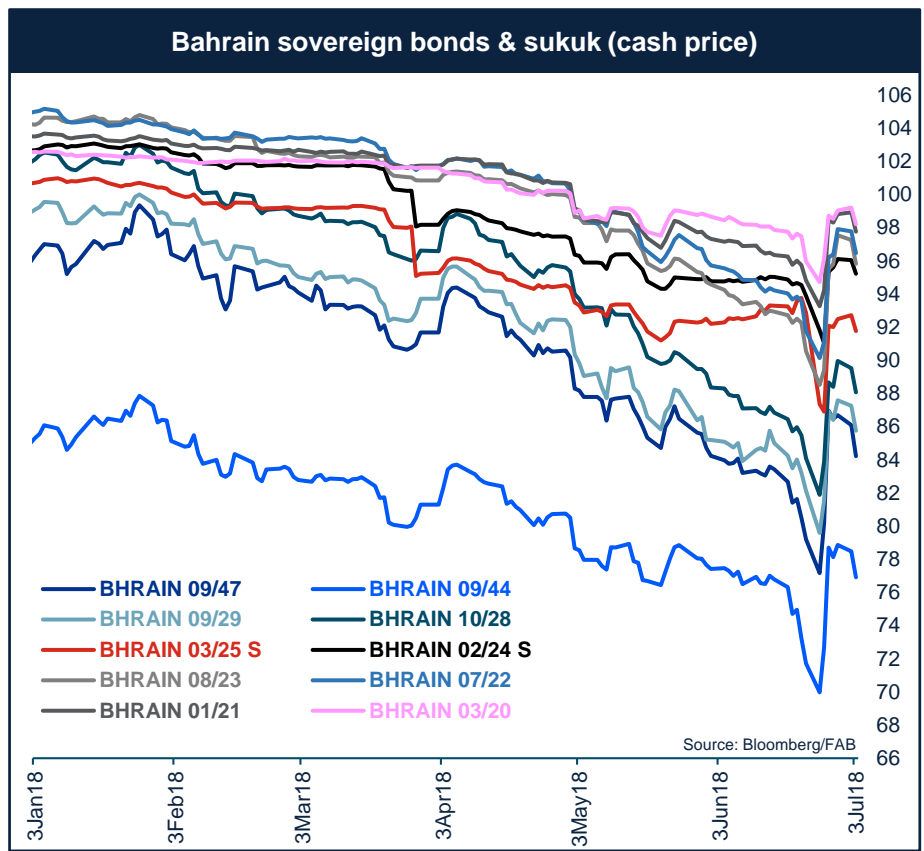
GCC credits showing a defensive stance in EM sell-off



Bahrain was the story of Q2 in GCC sovereigns

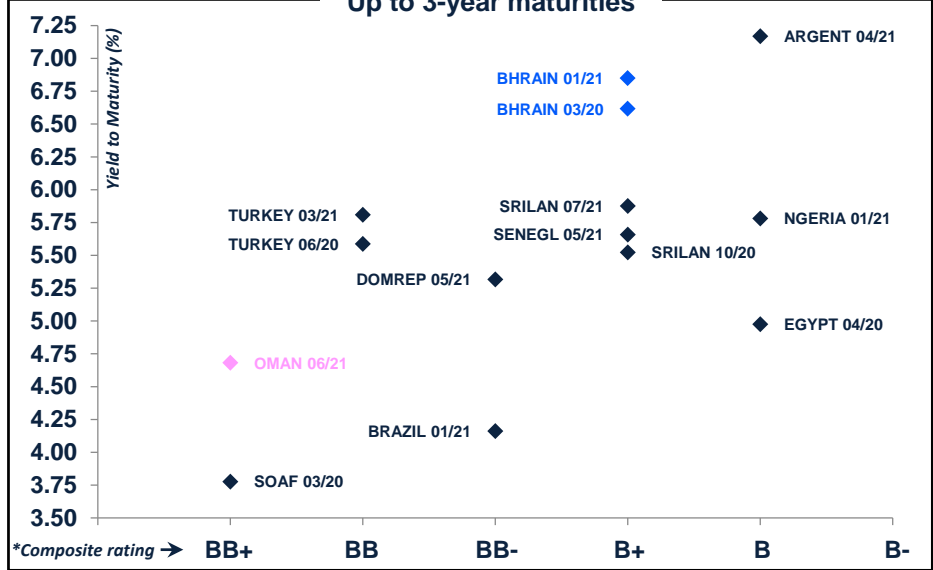
A sell-off in Bahrain’s sovereign bonds intensified in the second quarter and the long-dated bonds in particular were trading at fairly distressed level. Many market players were seen exiting their positions alarmed by the sovereign’s precarious fiscal position, which indeed showed that they were not pricing in the expected implicit support from Bahrain’s neighbouring states. On 26th June Saudi Arabia, Kuwait and the UAE made the expected support explicit by issuing a joint statement saying they will soon announce an integrated program to support Bahrain’s economic reforms and its fiscal stability.

Our report of 11th June, “[Bahrain: Battered but not broken](#)”, highlighted some of the key issues and drivers of this situation. Since we published the report, volatility in Bahrain bonds and CDS has continued (including the last 24hrs). Given the fast-moving nature of the story and indeed the volatile pricing, we would encourage readers to contact us for up to date colour on the Bahrain story.

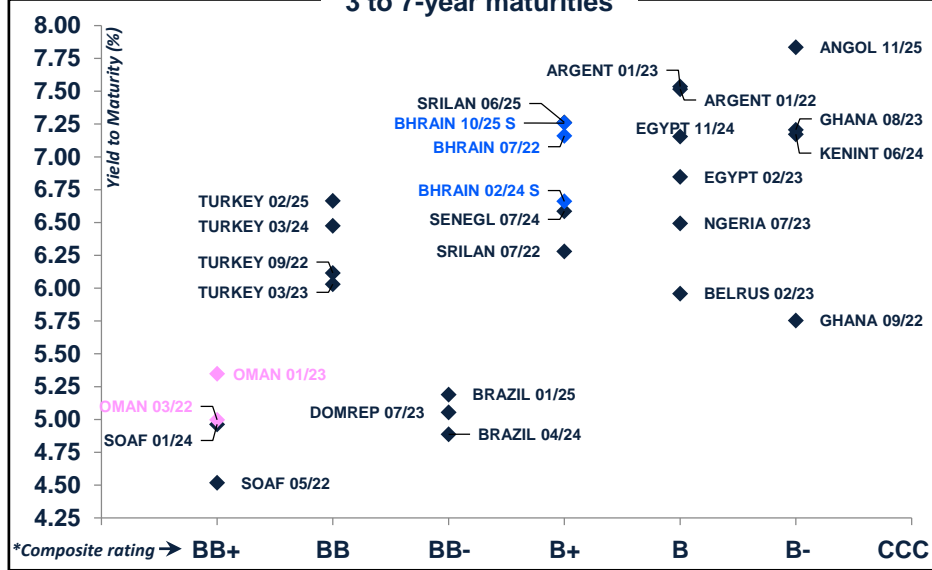


With support from GCC states having been announced, the Bahrain curve may look interesting in context of the EM space

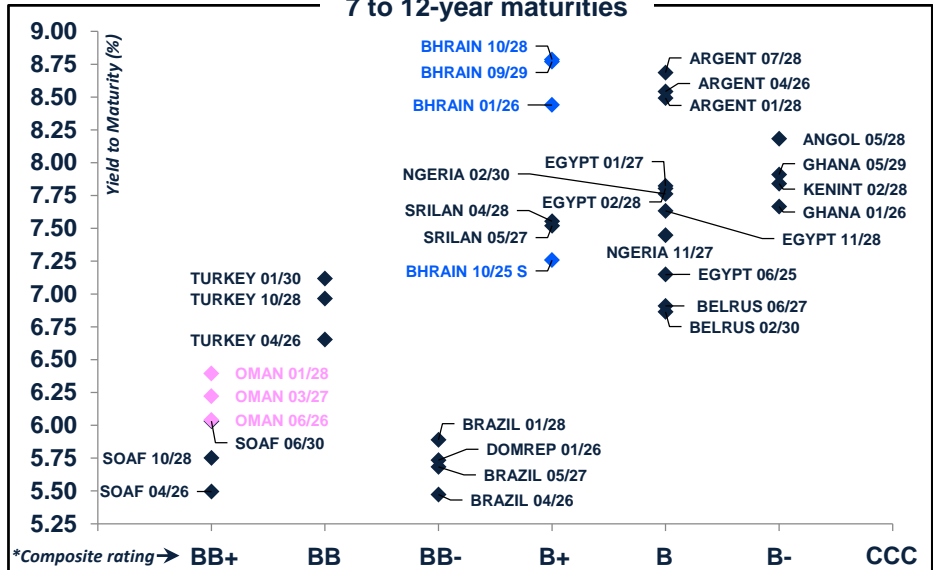
Up to 3-year maturities



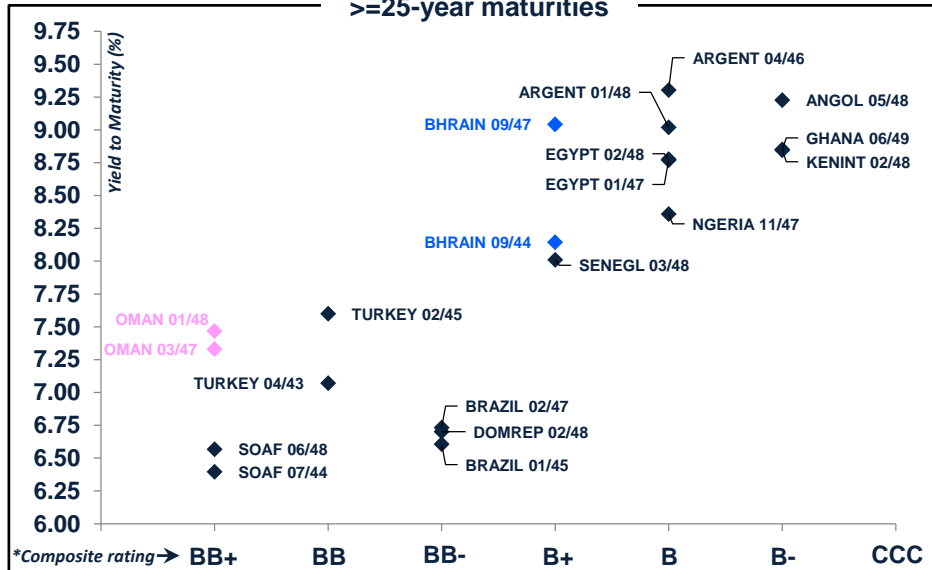
3 to 7-year maturities



7 to 12-year maturities

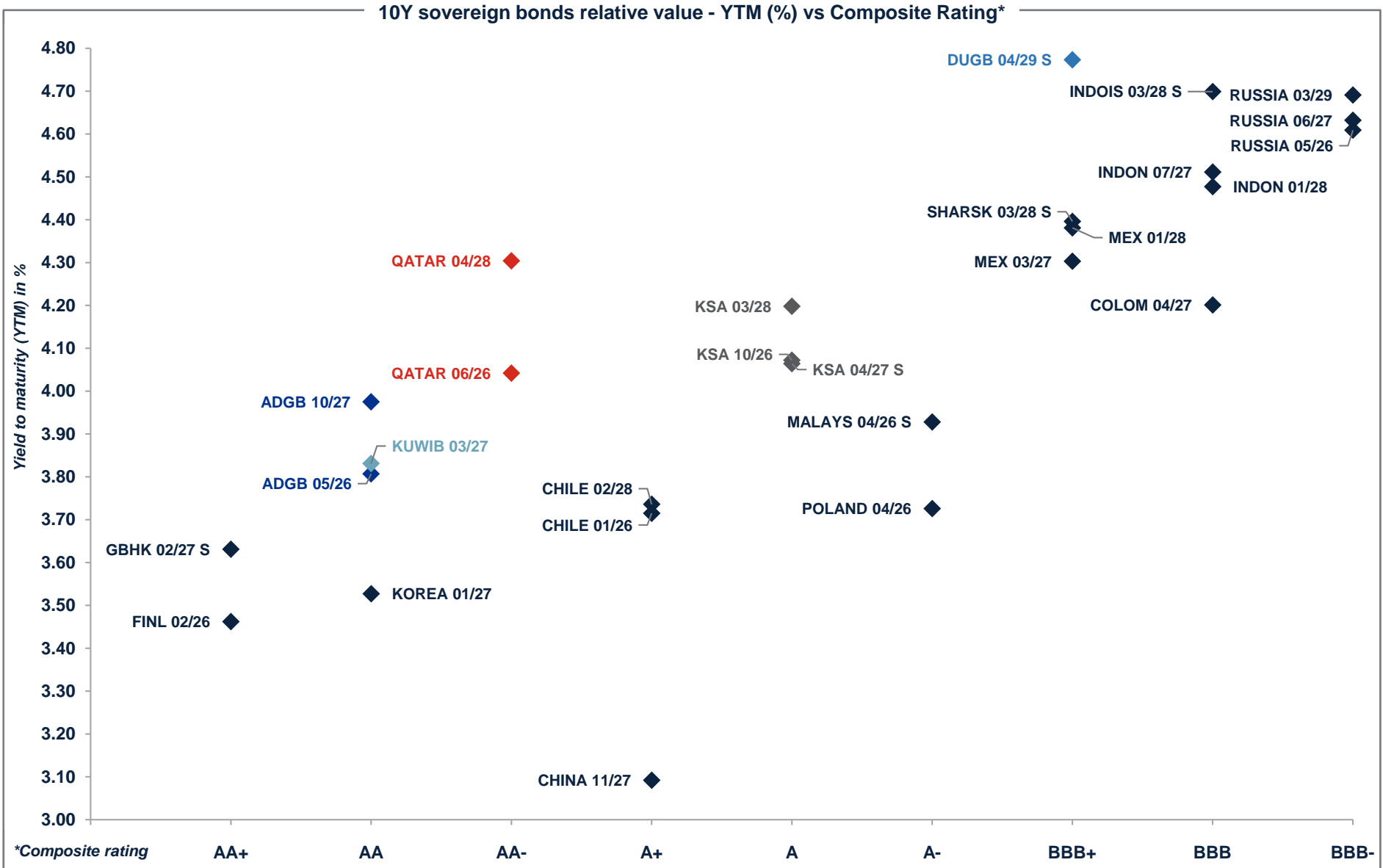


>=25-year maturities



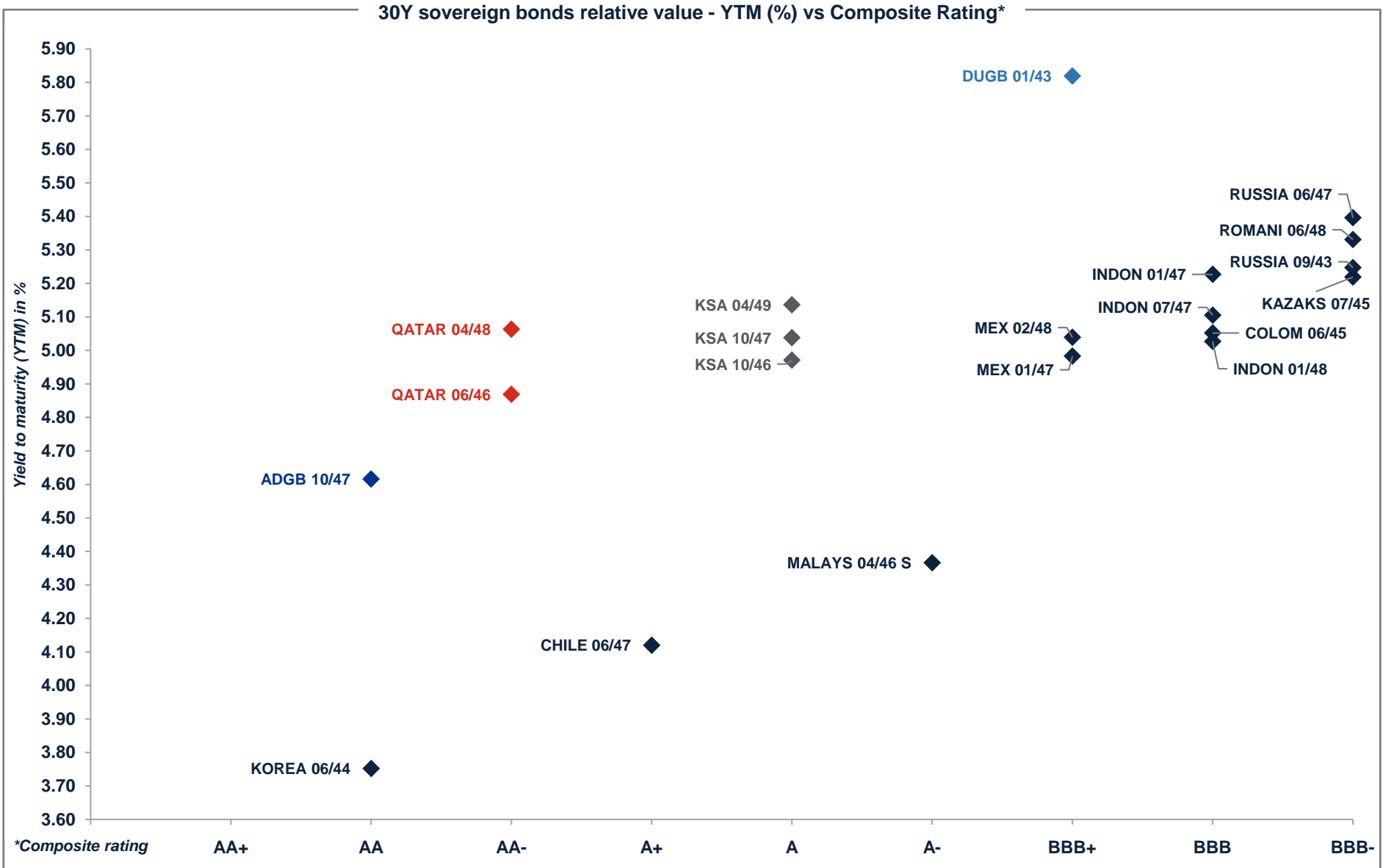
* Notes: Yields as on 03-Jul-2018; Composite rating - please refer Appendix for definition and calculation method; Source: Bloomberg/FAB

GCC inv. grade sovereign bonds vs EM peers – 10Y relative value



* Notes: Yields as on 03-July-2018; Composite rating - please refer Appendix for definition and calculation method; Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+); Source: Bloomberg/FAB

GCC inv. grade sovereign bonds vs EM peers – 30Y relative value

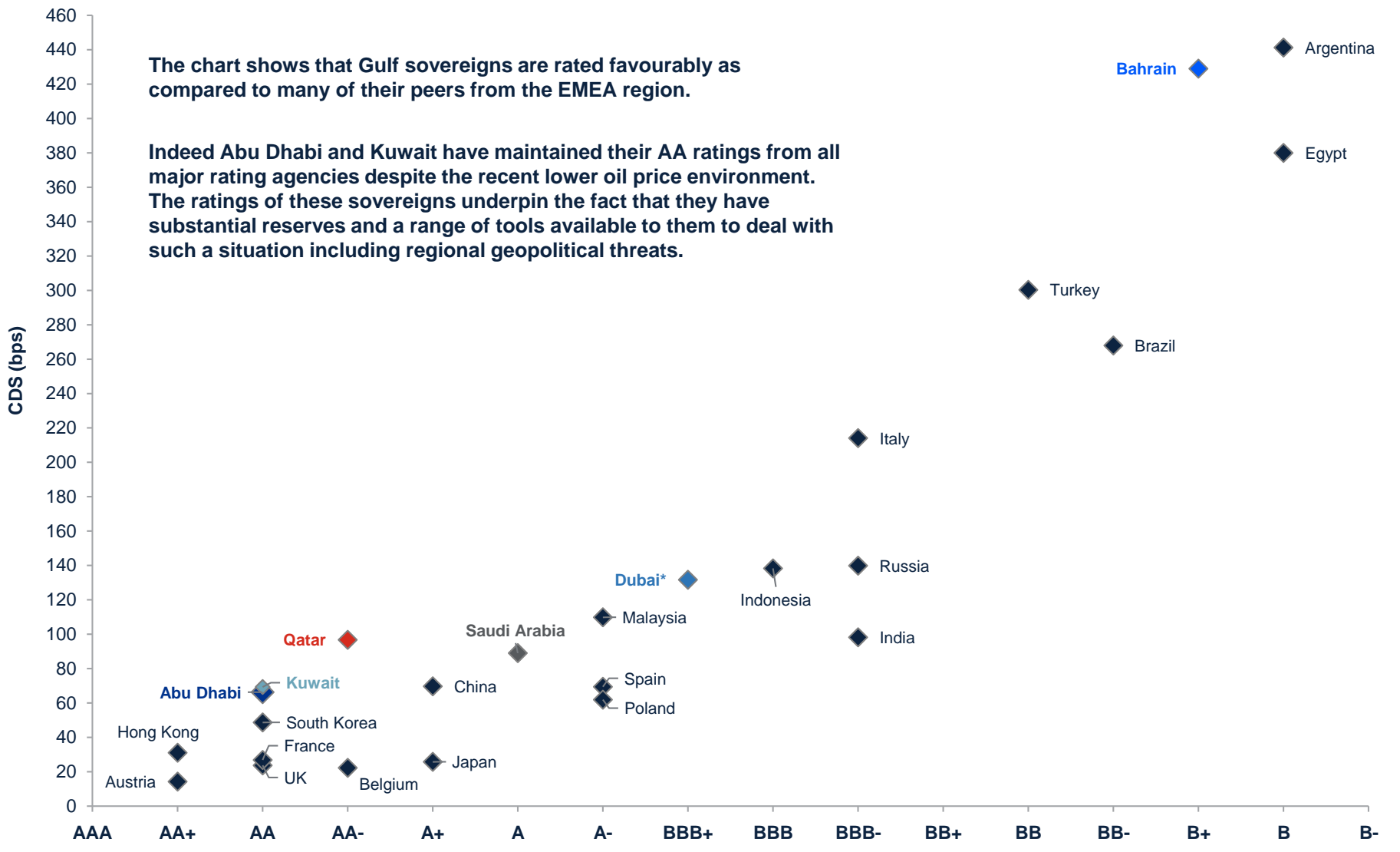


* Notes: Yields as on 03-July-2018; Composite rating - please refer Appendix for definition and calculation method; Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+); Source: Bloomberg/FAB

GCC sovereign credit ratings & CDS spreads versus peers

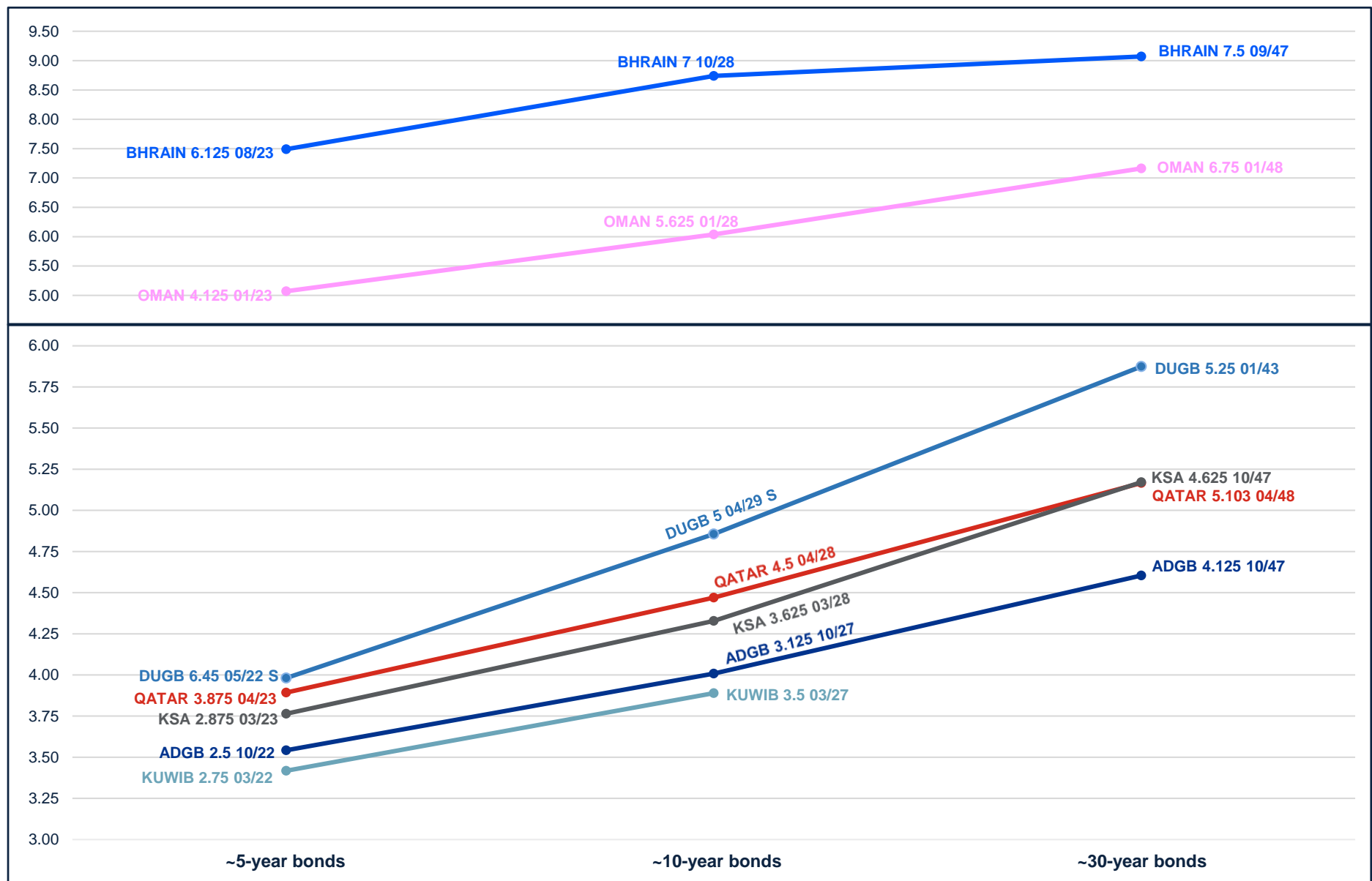
The chart shows that Gulf sovereigns are rated favourably as compared to many of their peers from the EMEA region.

Indeed Abu Dhabi and Kuwait have maintained their AA ratings from all major rating agencies despite the recent lower oil price environment. The ratings of these sovereigns underpin the fact that they have substantial reserves and a range of tools available to them to deal with such a situation including regional geopolitical threats.



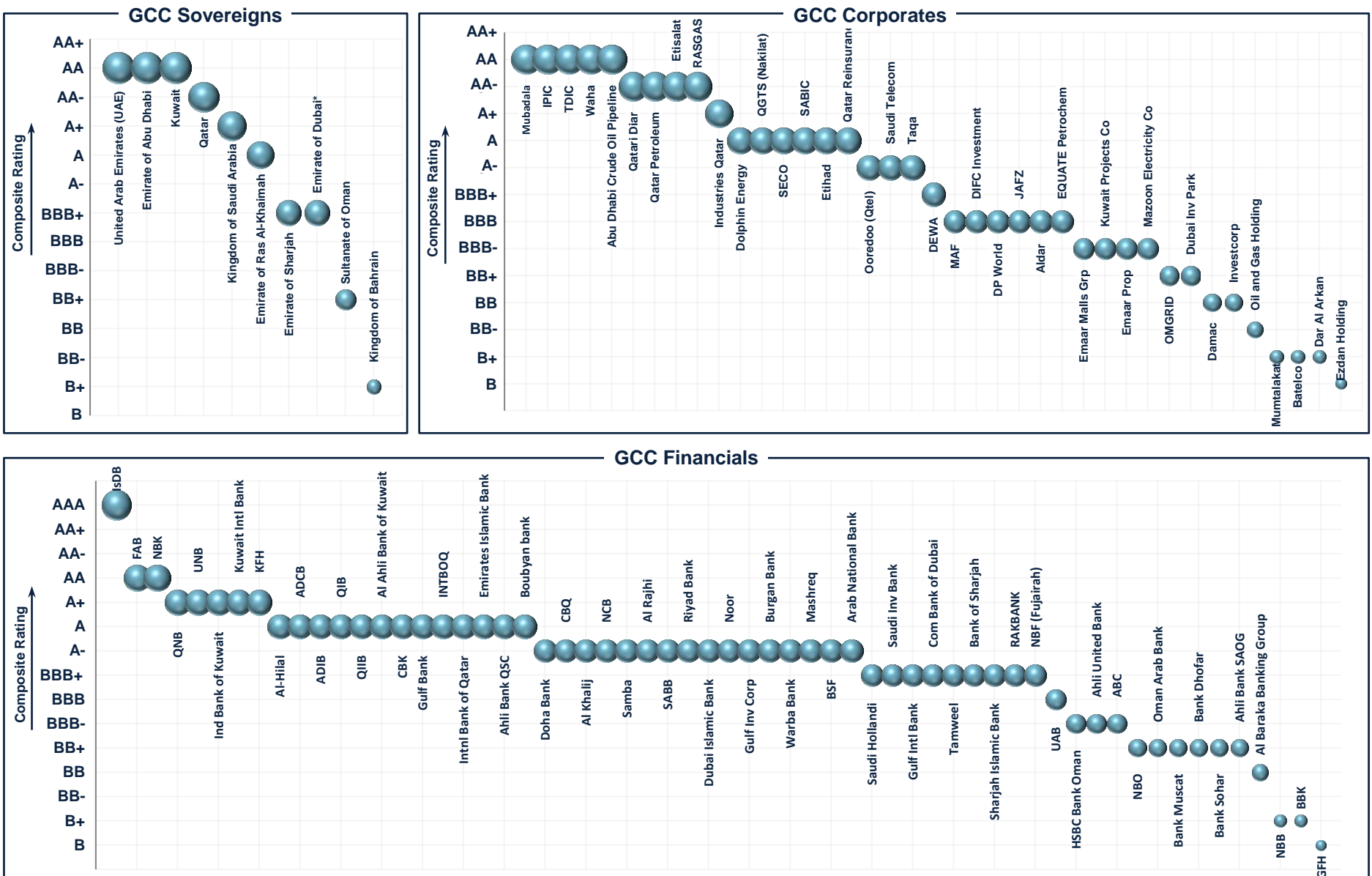
Notes: * X-axis represents the composite rating (please refer Appendix for calculation method); Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) & Emirate of Sharjah (BBB+). The ratings have been arranged from higher to lower starting from 'AA', followed by 'AA-' and so on; CDS levels are for 03-July-18 & in basis points; Source: Bloomberg/FAB

GCC sovereign curves



Notes: Curves as on 3-July-2018; "S" in the ticker indicates that the bond is Islamic (sukuk); Source: Bloomberg/FAB

GCC credit quality at a glance

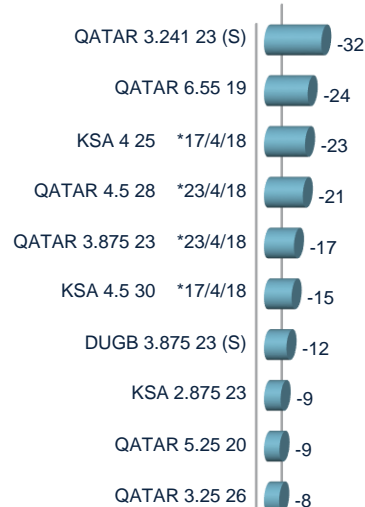


Note: The ratings mentioned here are composite credit rating for each issuer. Please see appendix for the methodology of calculating composite credit rating; * Dubai is not rated by any rating agency and we have assigned a proxy rating of 'BBB+' based on its fundamentals with a relative comparison to DEWA (BBB+) and Emirate of Sharjah (BBB+) & ; Source: Bloomberg/FAB

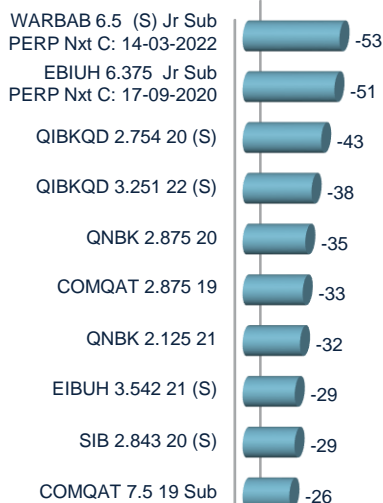
GCC spread performance summary

Top 10 / bottom 10 bond/sukuk performers (z-spread, bps) in each category from 29th Dec 2017 to 3rd Jul 2018

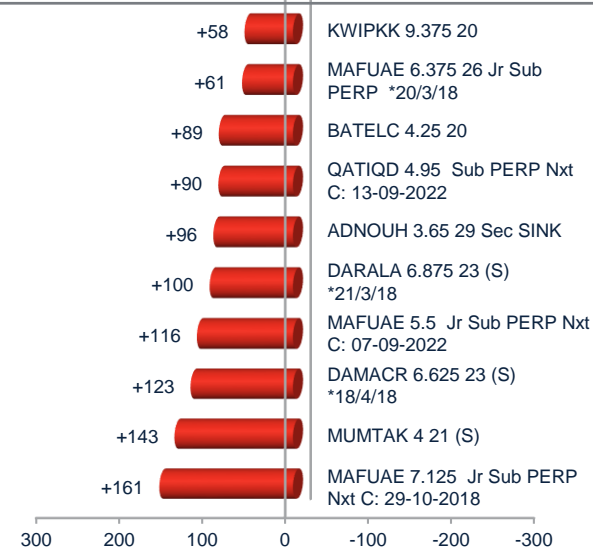
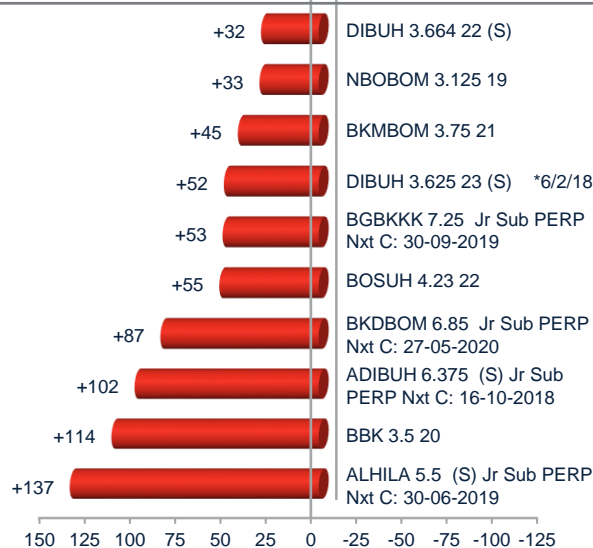
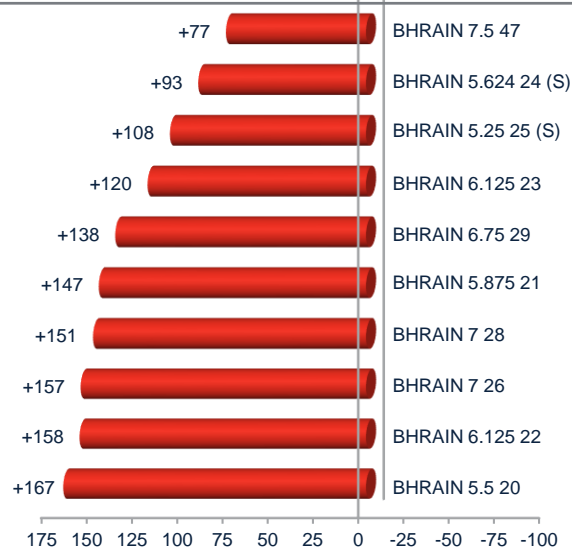
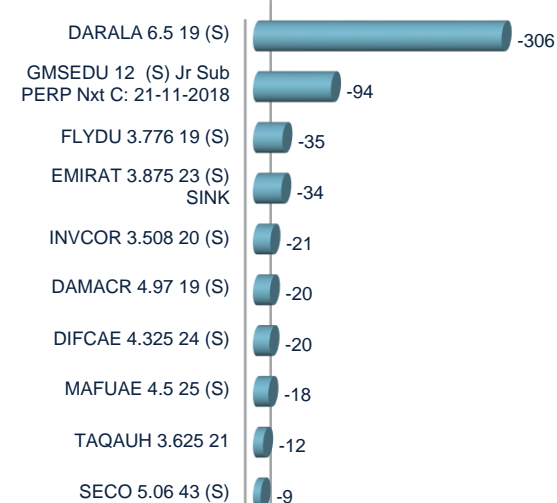
Sovereigns



Financials



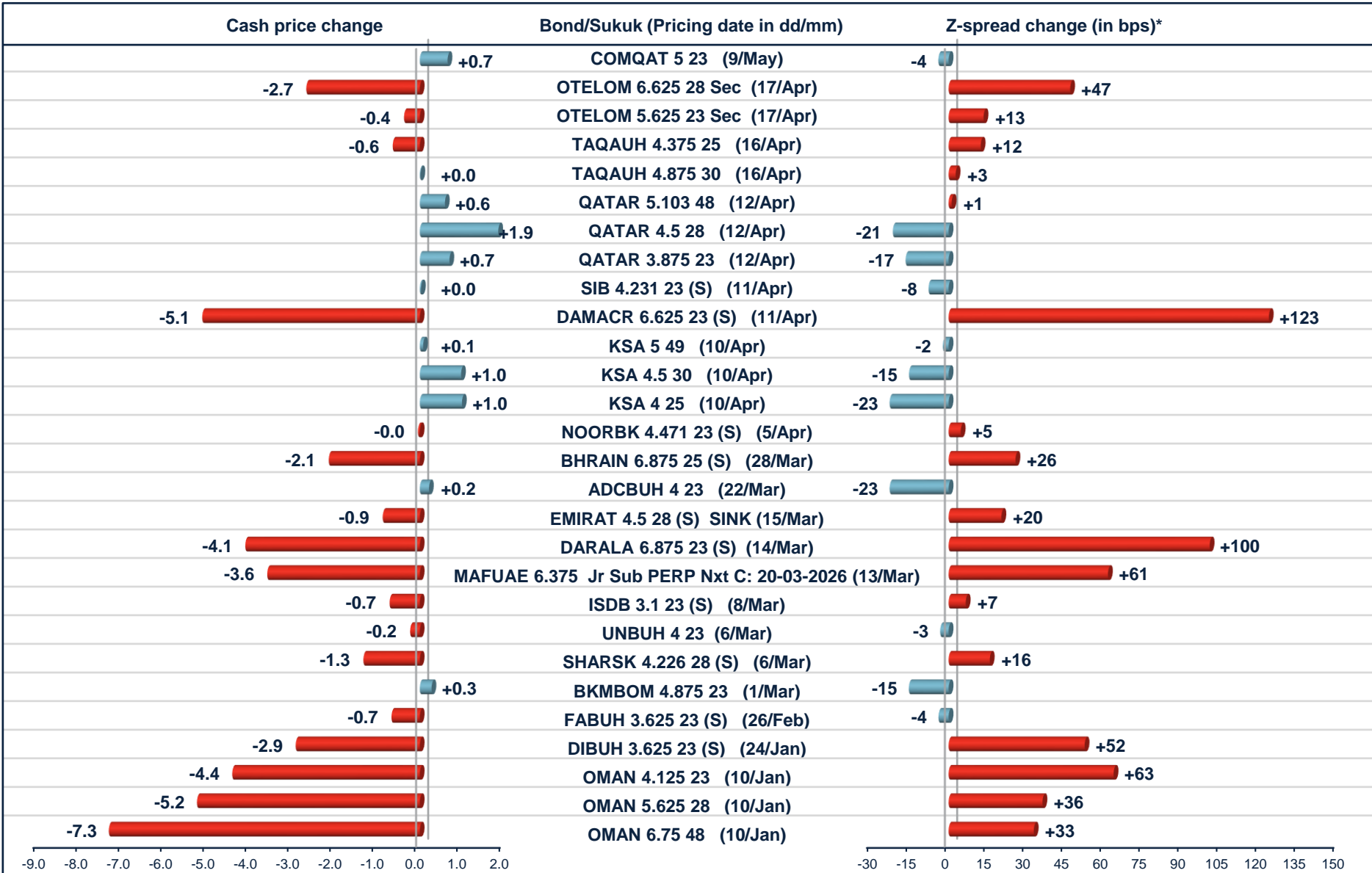
Corporates



Notes: (1) We have used a list of GCC public debt which are maturing in 2019 or beyond; (2) (S) in the ticker indicates Sukuk; (3) All bonds/sukuks are \$ denominated unless any other currency is highlighted in the ticker. (4) All bonds/sukuks are senior unsecured debt unless an abbreviation for the debt type is highlighted in the ticker – e.g. – “Unsec” = Unsecured debt junior to Senior Unsecured debt; ; “Sub” = Subordinated; “Sr Sub” = Senior Subordinated; “Jr Sub” = Junior Subordinated; “Perp” = Perpetual; Callable, Puttable and Sinkable highlighted as “Call”, “Put”, & “Sink” respectively; (4) * highlights spread change from the 1st settlement date of the bond as it was issued in 2018; Source: FAB/Bloomberg

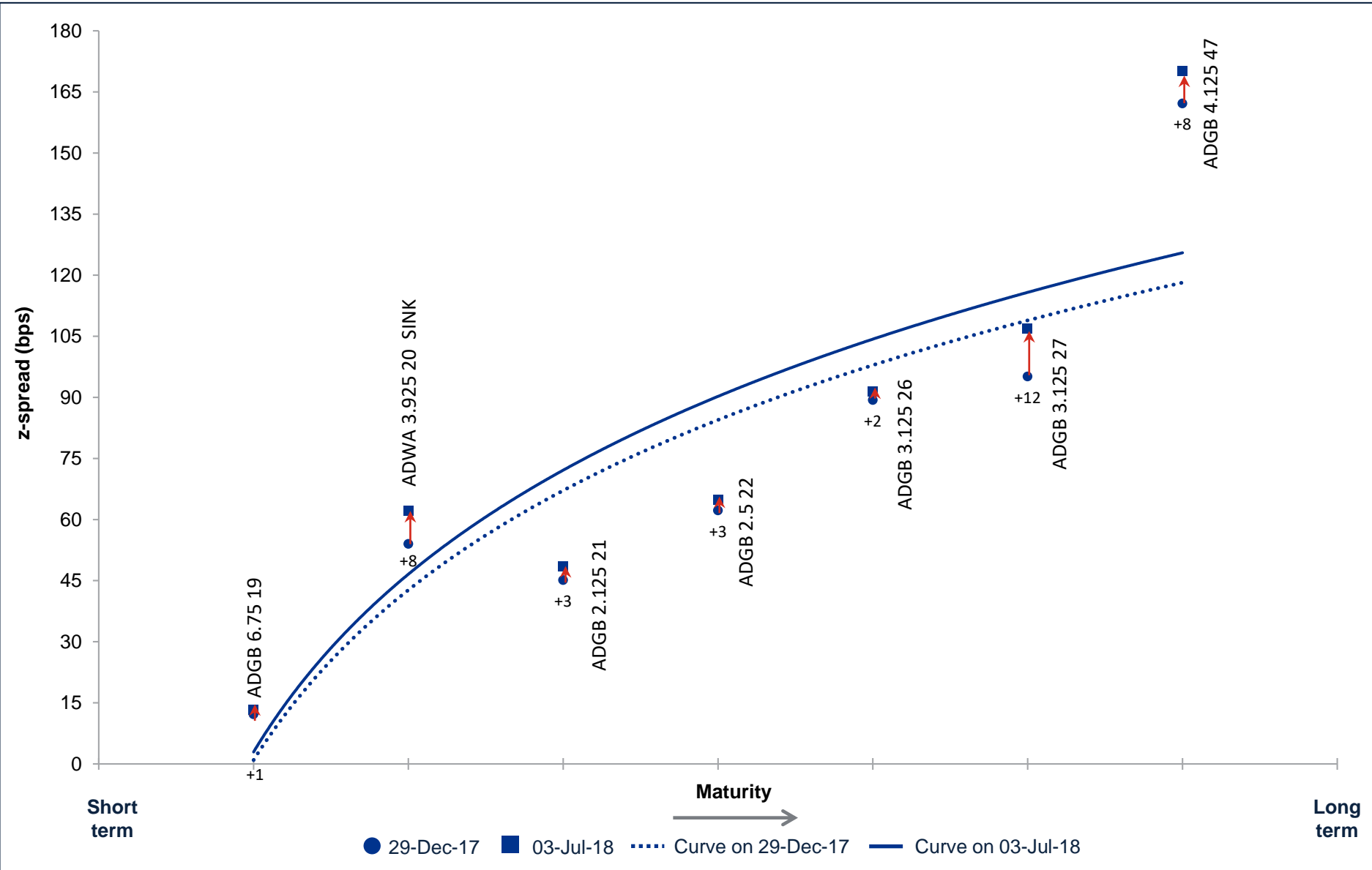
GCC's major primary deals in 1H'2018 and their performance

Secondary market performance since issue (change in z-spread and cash price since issue till 3rd Jul 18)



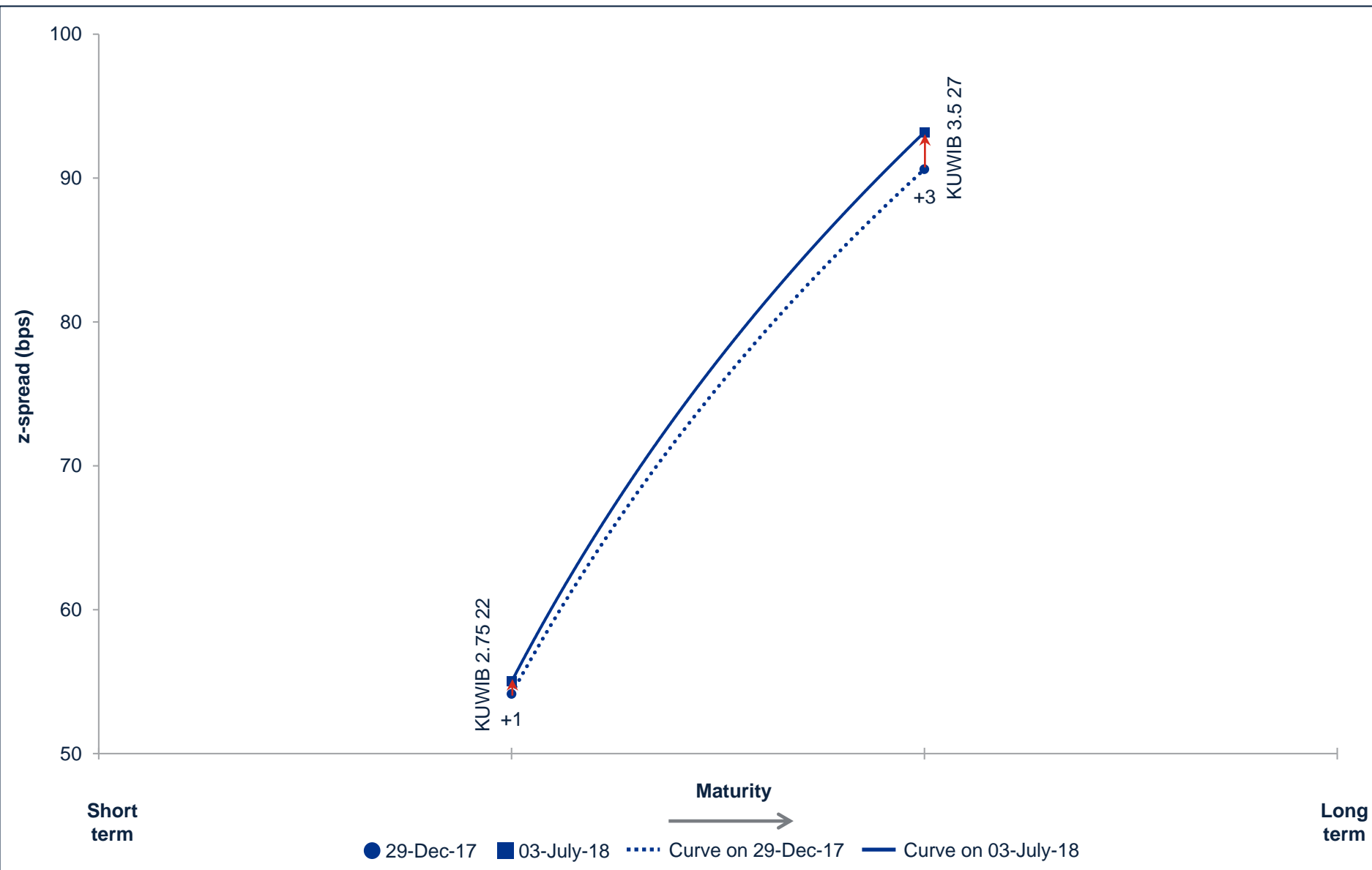
Notes: (S) in the ticker indicates Sukuk; All bonds/sukuks are US\$ senior unsecured debt of the issuer unless an abbreviation for the debt type is highlighted – e.g – “Unsec” = Unsecured debt; “Sub” = Subordinated; “Sr Sub” = Senior Subordinated; “Jr Sub” = Junior Subordinated; “Perp” = Perpetual; Callable, Puttable and Sinkable highlighted as “Call”, “Put”, & “Sink” respectively; Source: Bloomberg/FAB

Sovereigns spread performance – Abu Dhabi



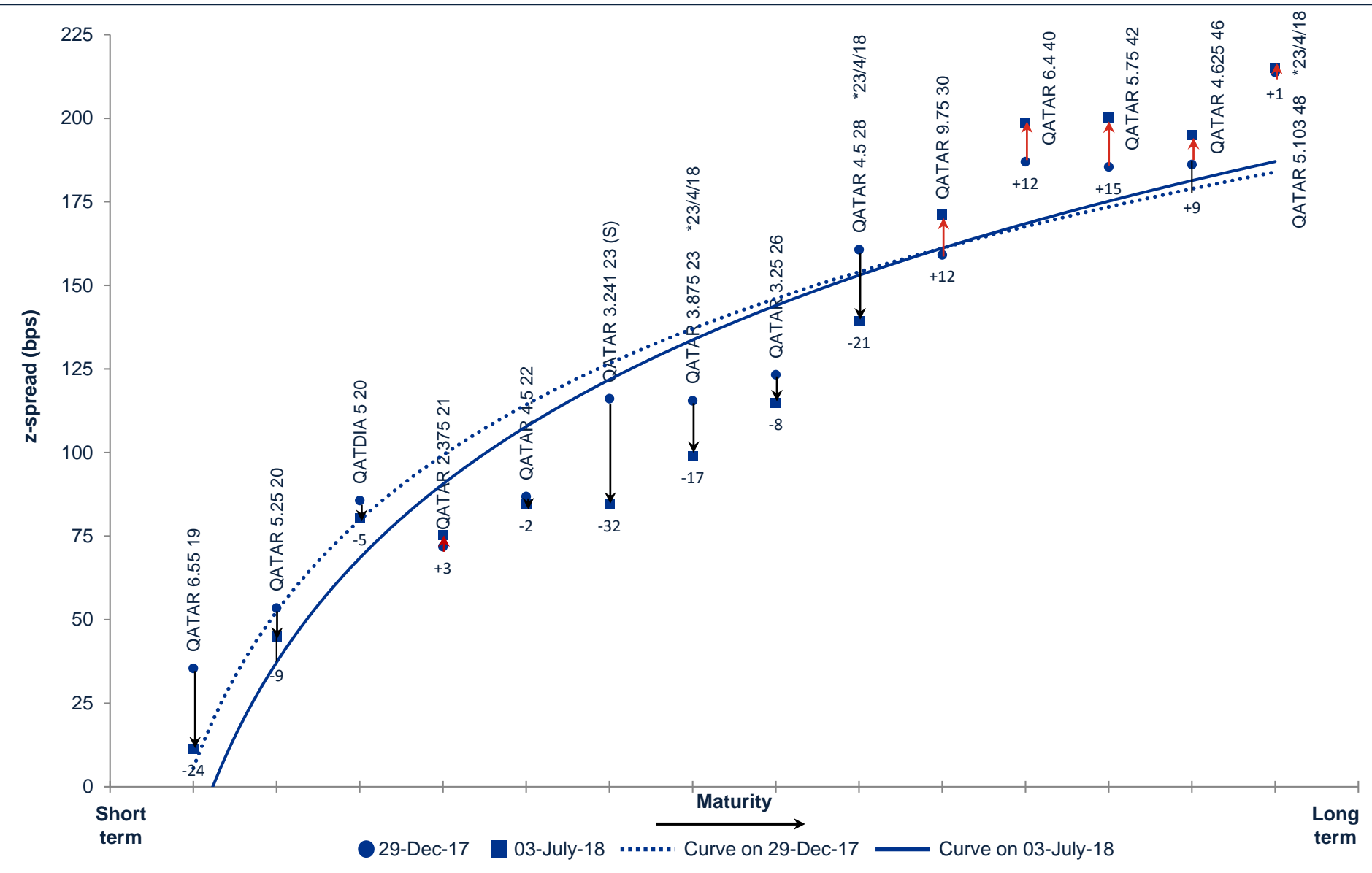
Source: FAB/Bloomberg

Sovereigns spread performance – Kuwait



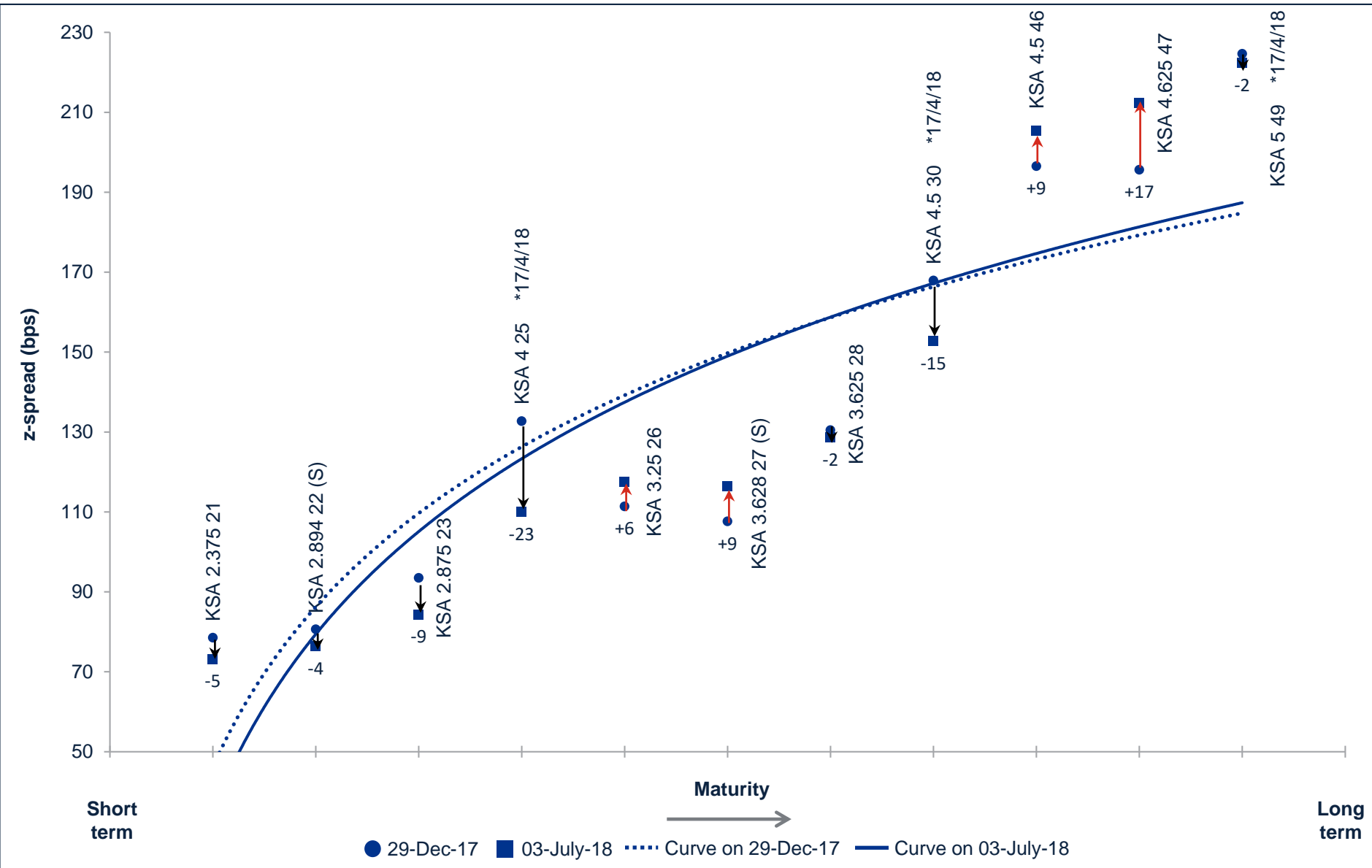
Source: FAB/Bloomberg

Sovereigns spread performance – Qatar



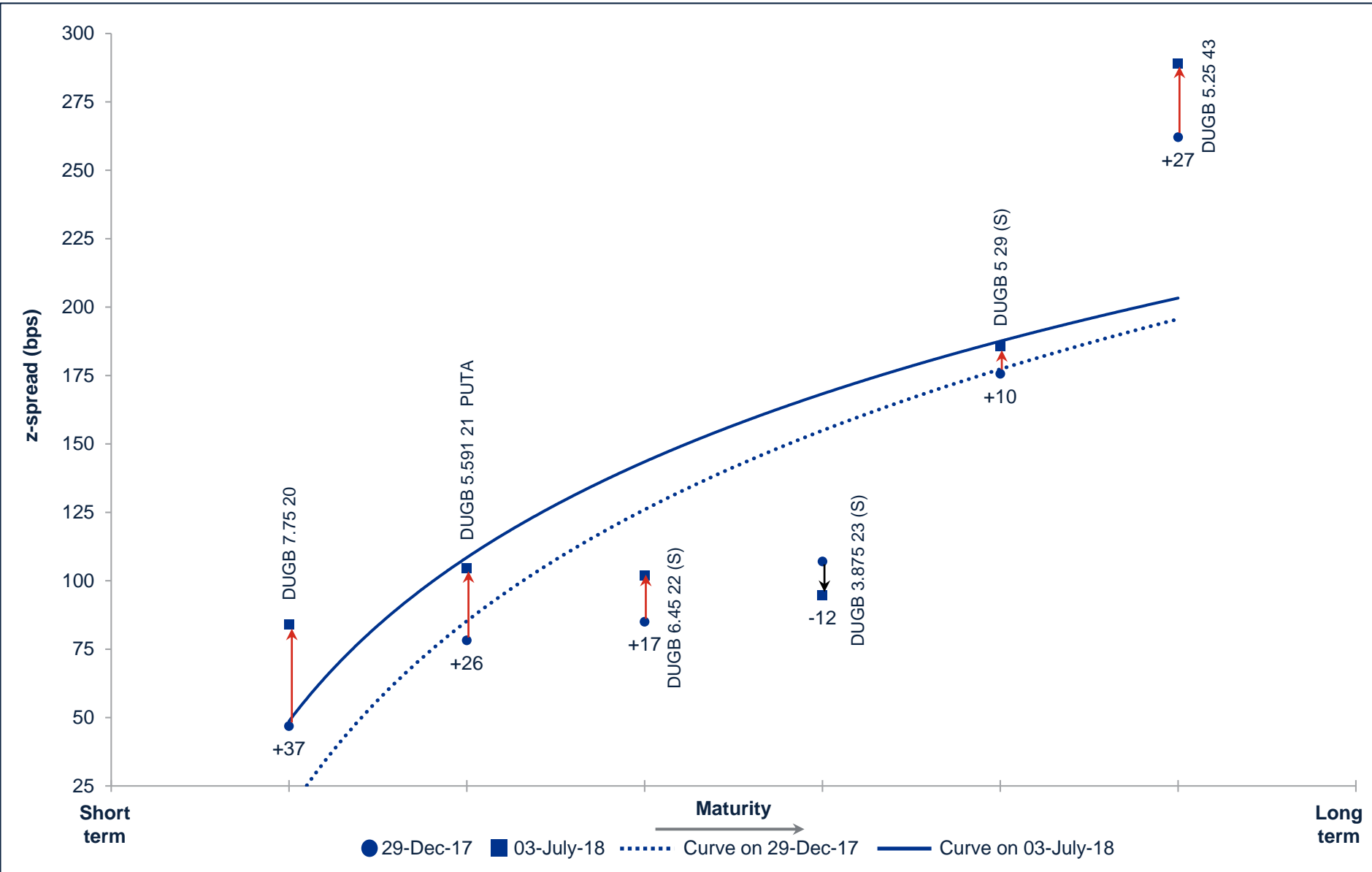
Notes: * Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk", the ticker contains "(S)" next to the maturity year; ** Included QATDIA in Qatar Sov curve as it is explicitly Govt guaranteed; Source: FAB/Bloomberg

Sovereigns spread performance – Saudi Arabia



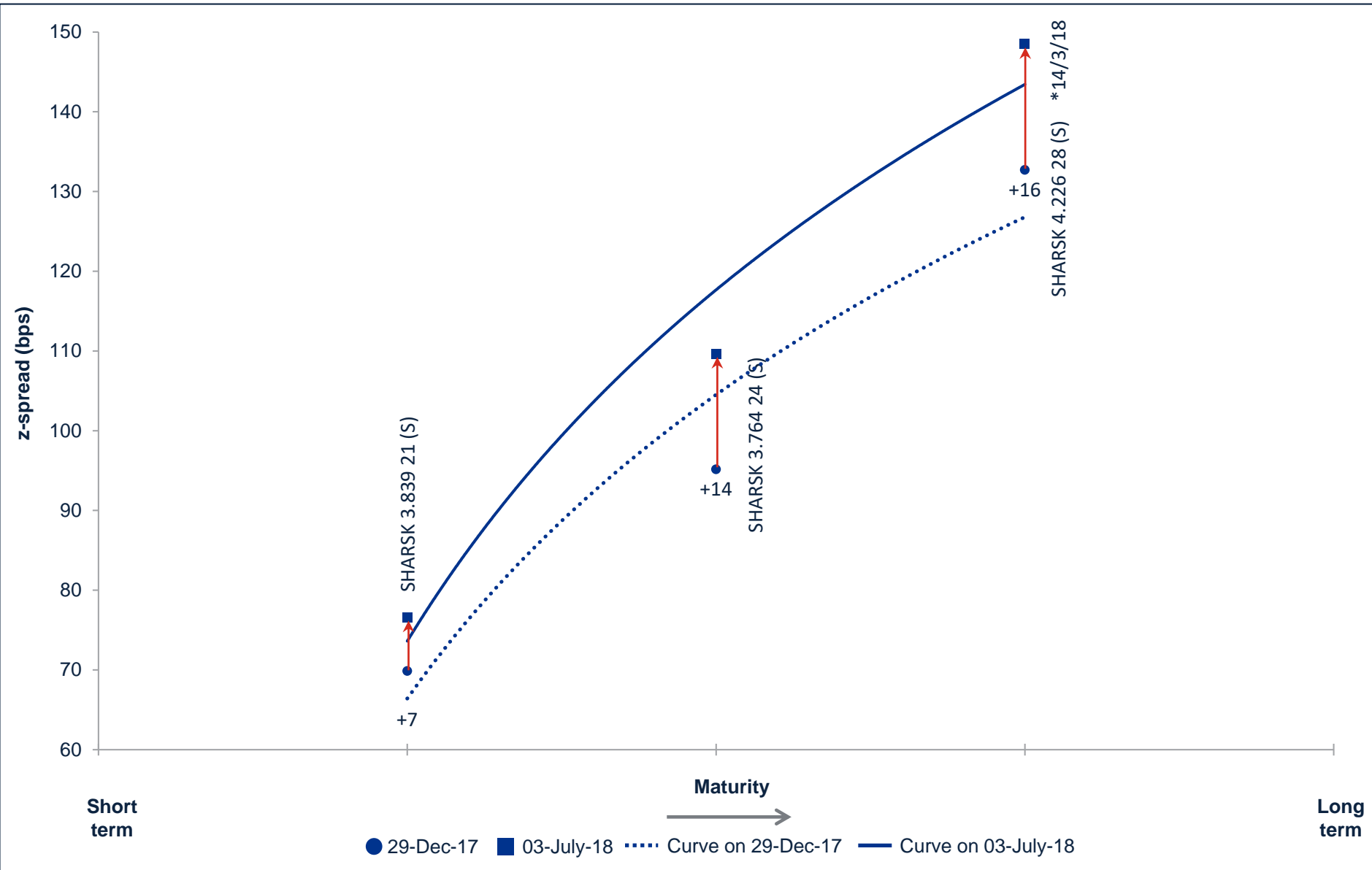
Notes: * Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk", the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

Sovereigns spread performance – Dubai



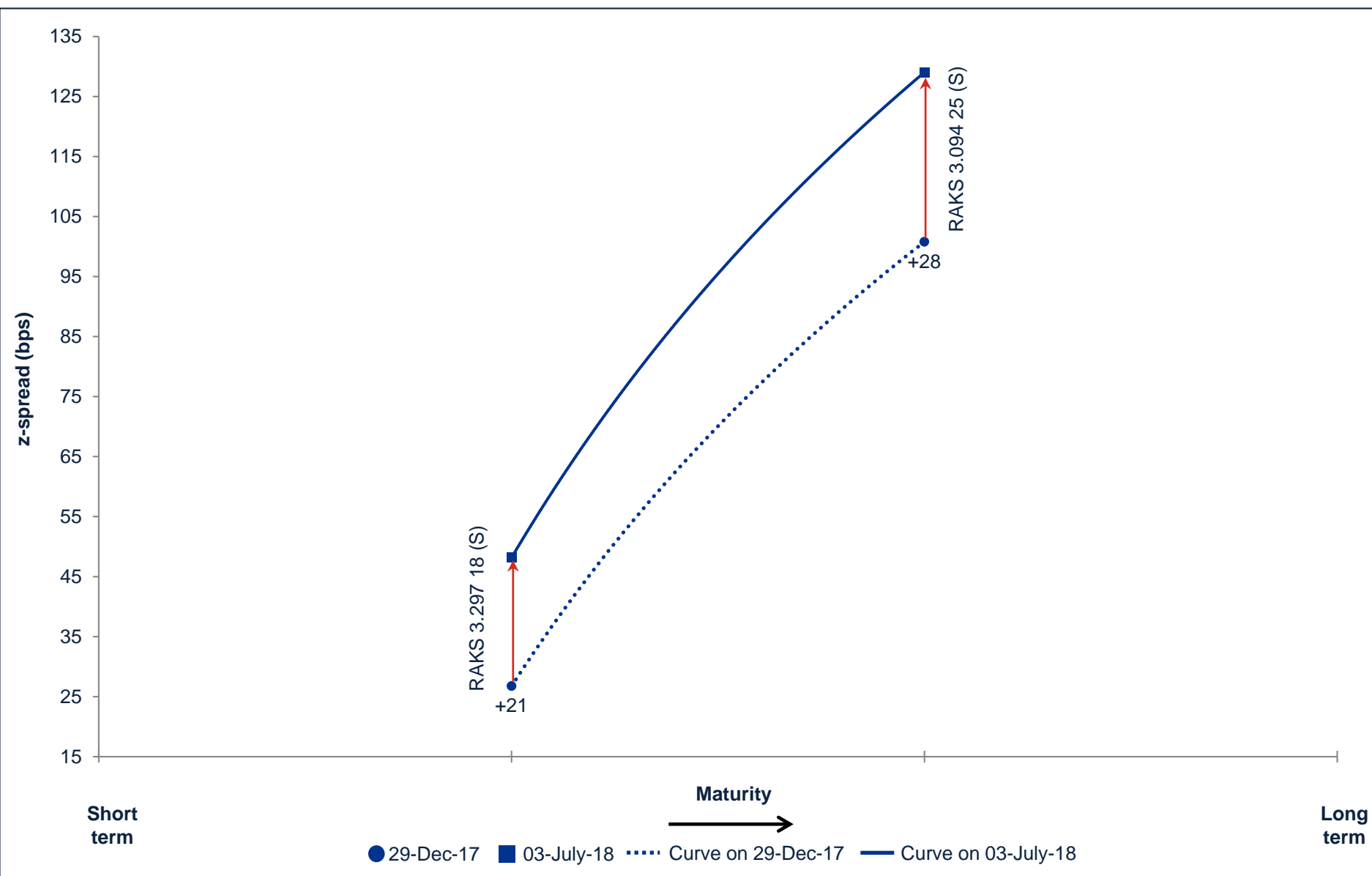
Notes: If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

Sovereigns spread performance – Sharjah



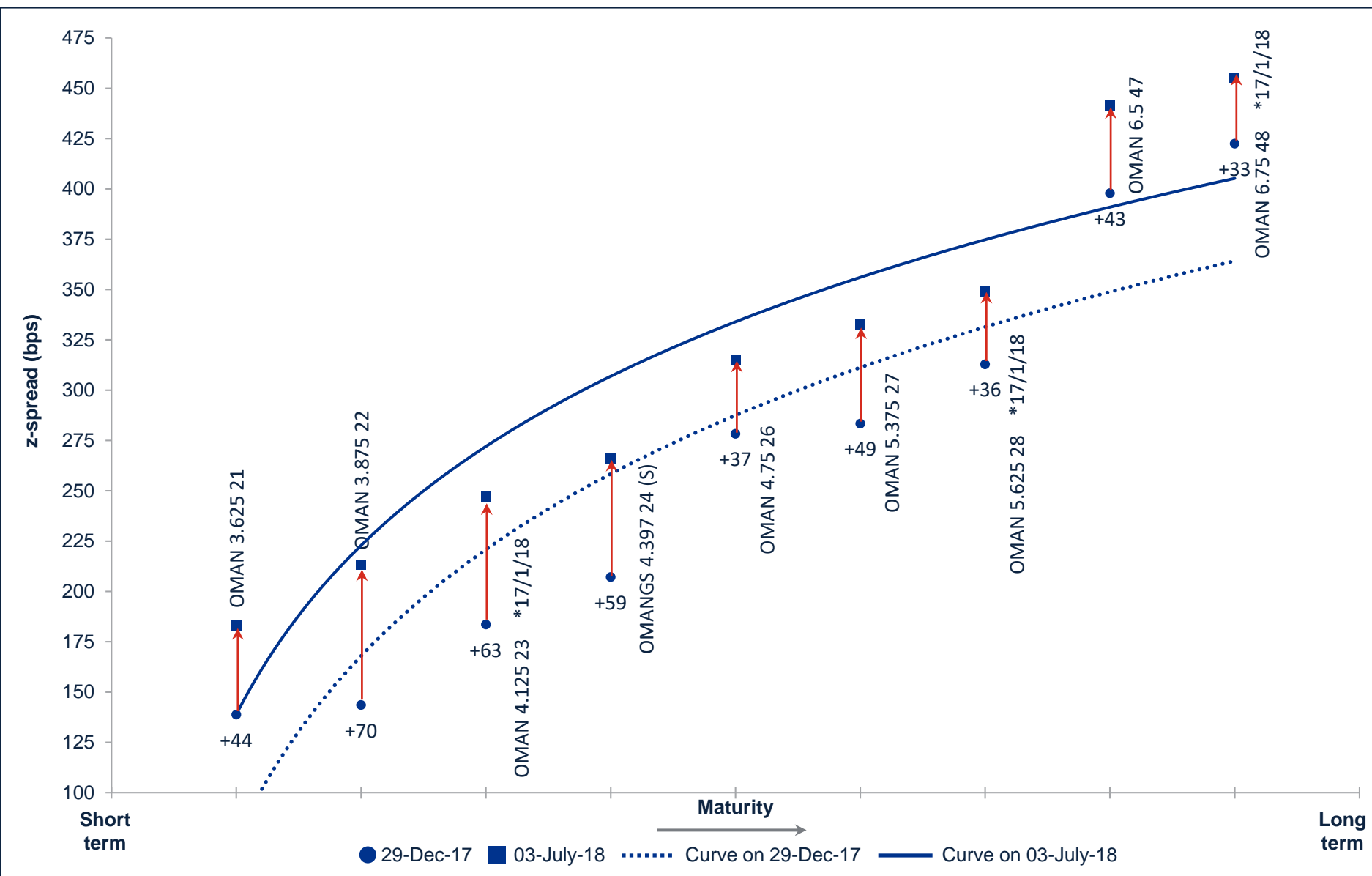
Notes: * Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

Sovereigns spread performance – Ras Al Khaimah



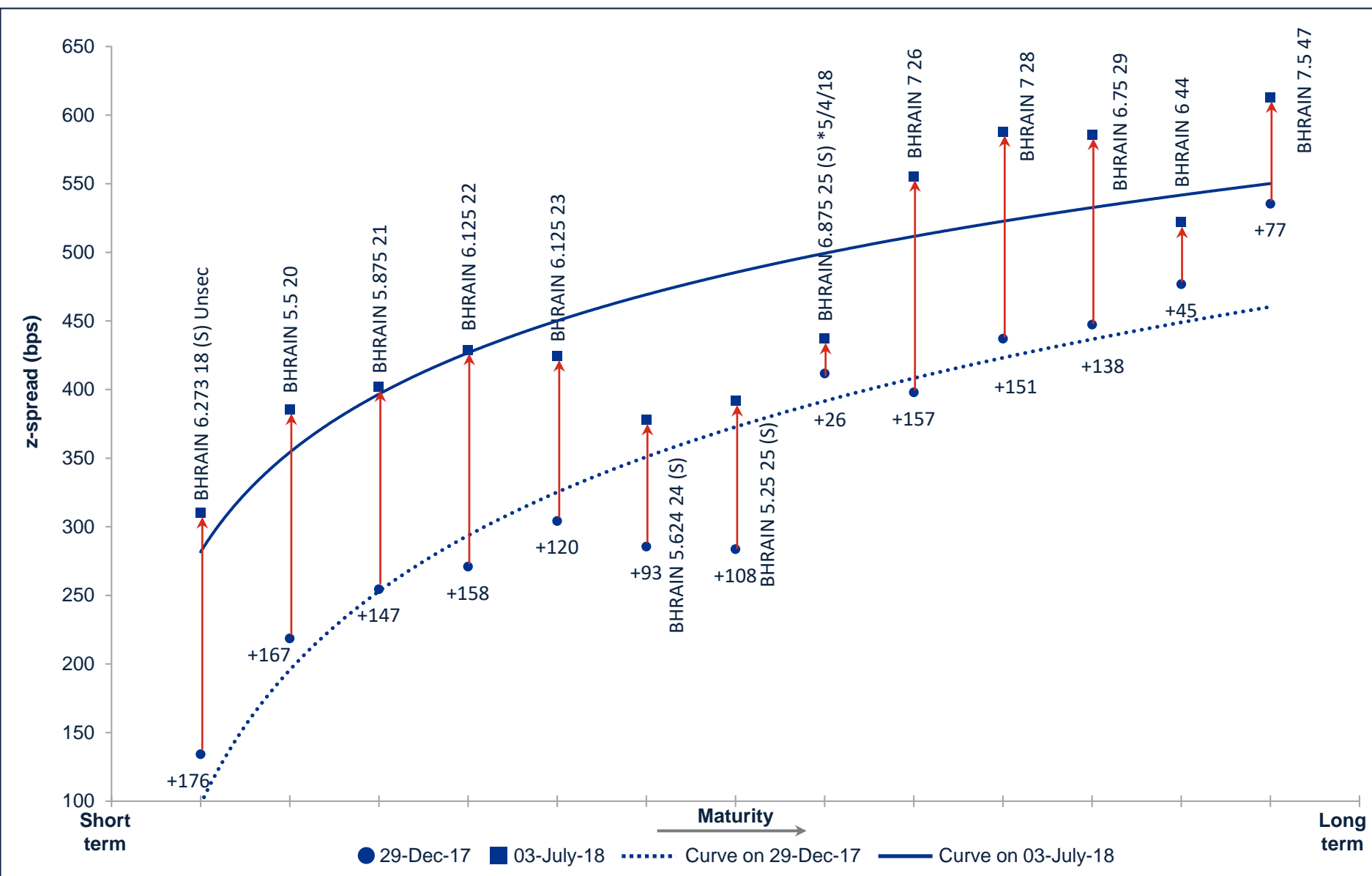
Notes: If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

Sovereigns spread performance – Oman



Notes: * Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

Sovereigns spread performance – Bahrain



Notes: * Highlights spread change from the 1st settlement date of the bond as it was issued in 2018; If "Sukuk" the ticker contains "(S)" next to the maturity year; Source: FAB/Bloomberg

- As mentioned in above slides, we have used “composite ratings” for the credit quality analysis – i.e. the average of the ratings assigned by three leading rating agencies Moody’s, S&P and Fitch – in order to provide a more representative view of the credit strength of each bank.
- The composite rating is calculated as follows:
 - A score is assigned to the rating from each rating agency: AAA or equivalent being the best with a score of “1”, followed by AA+ or equivalent as “2”, AA or equivalent as “3”, AA- or equivalent as “4” and so on;
 - For example FAB is rated Aa3/AA-/AA- by Moody’s/S&P/Fitch. So the scores are 4/4/4;
 - Hence the average of the scores is “4” which indicates a composite rating of “AA-” for FAB;
 - In case the average score is not an absolute number – e.g. 4.33 (average of 4, 5, & 4) – the final score is derived by rounding off the average score to the nearest whole number. In this case “4”.



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