

# GCC Bond Chart Book

*A comprehensive overview of the risk and return parameters  
of the key securities in the GCC Fixed Income space*

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**3Q 2022**



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## ► Structure of the presentation

This GCC Bond Chart Book provides a comprehensive review of the bond market performance in 3Q22 (Chapter I), the trends in GCC dollar bond issuances (Chapter II) and finally the bond valuations compared mostly with other emerging market peers (Chapter III and Chapter IV).

## ► Global and emerging bond markets performance

Global fixed income markets remained under pressure in 3Q22 as global central banks intensified their hawkish response to tackle decade high inflation pressures. Bloomberg Global Aggregate bond index declined by c7%, taking its nine month losses (January-September 22) to c20%. Global inflation-linked bonds and Global Treasuries were the worst performers in 3Q22. Emerging market sovereign bonds posted losses of c4% in 3Q22, vulnerable to the global bond market volatility. Broad dollar strength, tightening of US financial conditions and weak China economic data continued to weigh on the appetite for EM bonds.

## ► GCC bonds performance

The losses in EM USD bonds were yet again led by EM EMEA on the back of the worsening energy crisis in Europe. EM LatAm and EM Asia also posted losses in 3Q22. In the GCC, USD sovereign bonds were not immune to the broad EM bond sell-off, but underperformed EM bond index. High-quality sovereigns of Saudi, Qatar and the UAE suffered the most. On the other hand, Bahrain, Oman and Kuwait relatively outperformed the HQ GCC sovereigns in 3Q22 (Page 7). Weak sovereigns were supported with high yield providing some buffer, even though oil prices declined in the third quarter of the year. Meanwhile, 10-year dollar bond yields rose across the GCC countries (Page 8 and 9). But, GCC sovereign CDS spreads tightened in 3Q22, despite the decline in oil prices. (Page 10).

In corporate bond markets, Middle-east corporate spreads continued to remain stable compared to EM peers, still trading close to end-2019 levels. But GCC corporate spreads witnessed volatility in 3Q22 on the back of the decline in oil prices. (Page 11)

## ► GCC issuance activity

### ► Sovereign bond issuances

GCC fiscal balances have been well supported with the increase in oil prices. As a result, issuance remain subdued in 3Q22, continuing the trend seen in 1H 22. UAE and Bahrain were the only two countries to issue bonds in 3Q22. The UAE federal government raised USD3bn, USD1.75bn in 10yr bond and USD1.25bn in 30yr bond. Bahrain raised USD500mn in bonds maturing in 2026. UAE has been the largest issuer in the January-September 2022 period (see Page 18). The UAE federal government also conducted new sales of local-currency bonds in 3Q22, in a bid to build the treasury bond yield curve. UAE conducted its fourth auction of the Treasury bonds program in September, which included the first issuance of the 5yr AED-denominated bond.

Higher oil prices and strengthening fiscal balances are likely to further reduce the need for GCC sovereigns to raise borrowing in 2022. Higher-quality sovereigns are expected to record fiscal surplus in 2022. We expect the UAE to again lead in terms of bond issuances this year with estimated issuances of USD6bn, but lower than USD11bn in 2021. We expect no new bond issuances from Saudi Arabia after having raised USD5bn in its first bond sale in October after almost a year.

### ► Corporate bond issuances

GCC corporate borrowings were also fairly subdued in 3Q22. GCC corporate refrained from tapping the bond market on account of increased global market volatility and rise in borrowing rates. GCC corporates raised an aggregate of USD11bn in 3Q22, taking YTD (January- September) issuance to USD23bn (Page 20). Major corporate deals YTD (January- September) included bond issuances by EIG investors, the stakeholders in Saudi Aramco oil company. Mubadala also remained the largest issuer YTD, (January- September) raising USD1.5bn in 5yr and 10yr bonds (Page 21).

We expect corporate bond issuance to remain subdued in the remainder of the year, despite the support from oil prices and economic recovery. This will be mainly on account of the headwinds from Fed policy lift-off with higher interest rates and bond market volatility to make it challenging for the corporates to rely on the dollar bond borrowings. On the other hand, with the key sovereigns of UAE and the Saudi Arabia announcing their net –zero emissions goal, we are likely to see more ESG-related issuances from the GCC corporates. Many corporates have announced their intention to target ESG-related issuances in 2022.

# GCC Bond Markets – Our recommendation

## ADCB Investment Strategy Fixed Income stance

With the ongoing global central bank tightening, GCC spreads are unlikely to remain immune to the global market volatility. However, strong fundamentals in the form of positive growth outlook, higher oil prices, better fiscal and external positioning should prove supportive for the GCC economies. As such, we continue to prefer high -quality GCC sovereign bond markets and Oman. Fiscal positioning of Oman has improved on the back of government’s diversification efforts coupled with rise in oil prices. The country’s oil breakeven levels have dropped from 101USD/bbl in 2016 to 60USD/bbl in 2022. Our key takeaway is: GCC paper has shown resilience and will be more favored compared to other emerging markets given the quality and better rating of the sovereigns.

Fixed income**	Underweight	Neutral	Overweight
Duration			████████████████████
US Treasuries			████████████████████
<b>US Credit</b>			
Investment Grade		████████████████████	
HY (off benchmark)	████████████████████		
European Bunds		████████████████████	
<b>European Credit</b>			
Investment Grade		████████████████████	
HY (off benchmark)	████████████████████		
<b>EM USD Sovereign</b>			
Brazil			████████████████████
HQ*** GCC + Oman			████████████████████
<b>EM LC Sovereign</b>	████████████████████		
<b>EM Corporate</b>	████████████████████		
- EM Asia			████████████████████

Source: Barclays, Bloomberg, and ADCB Asset Management | Notes: \*\*Positions recommended based on Bloomberg Barclays Global Aggregate (USD unhedged) Index benchmarks

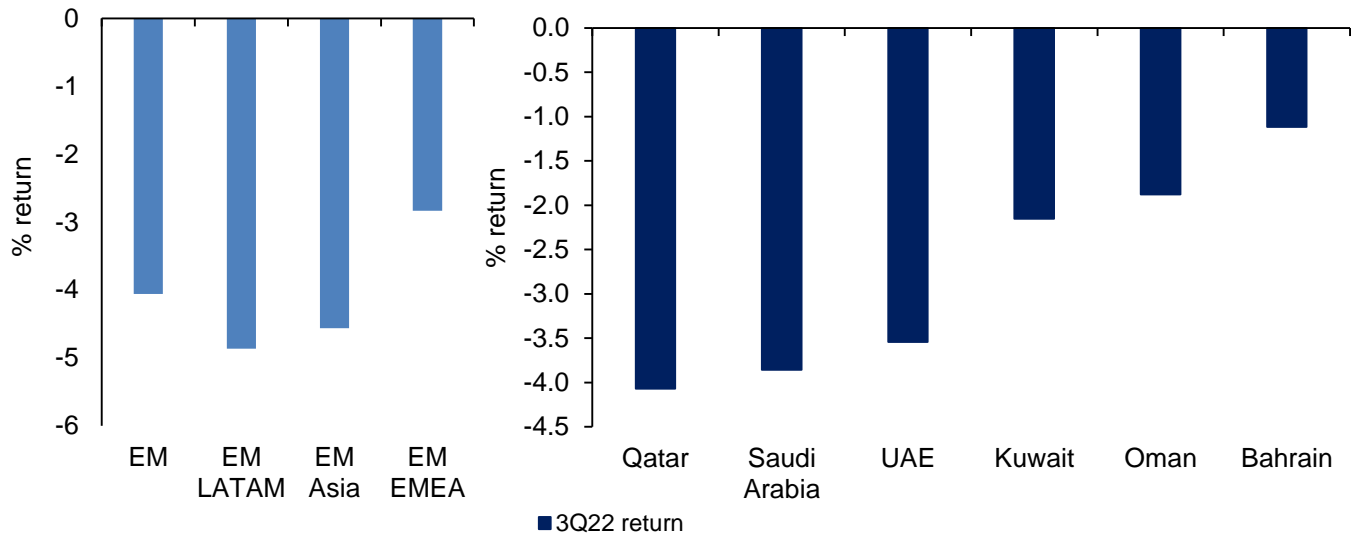
- ▶ Chapter I: GCC bond performance in 3Q22
- ▶ Chapter II: Primary market bond issuances in GCC
- ▶ Chapter III: Credit rating valuation
- ▶ Chapter IV: GCC valuation analysis

# Chapter I: GCC bond market performance in 3Q22



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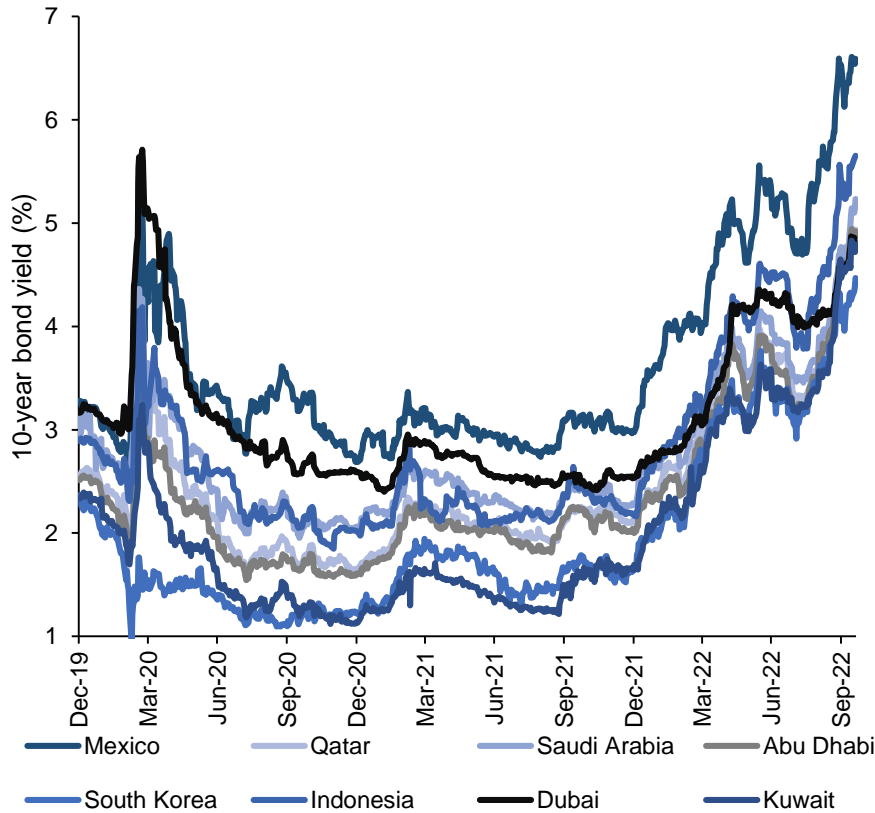
# GCC countries: US dollar bond performance versus EM indices



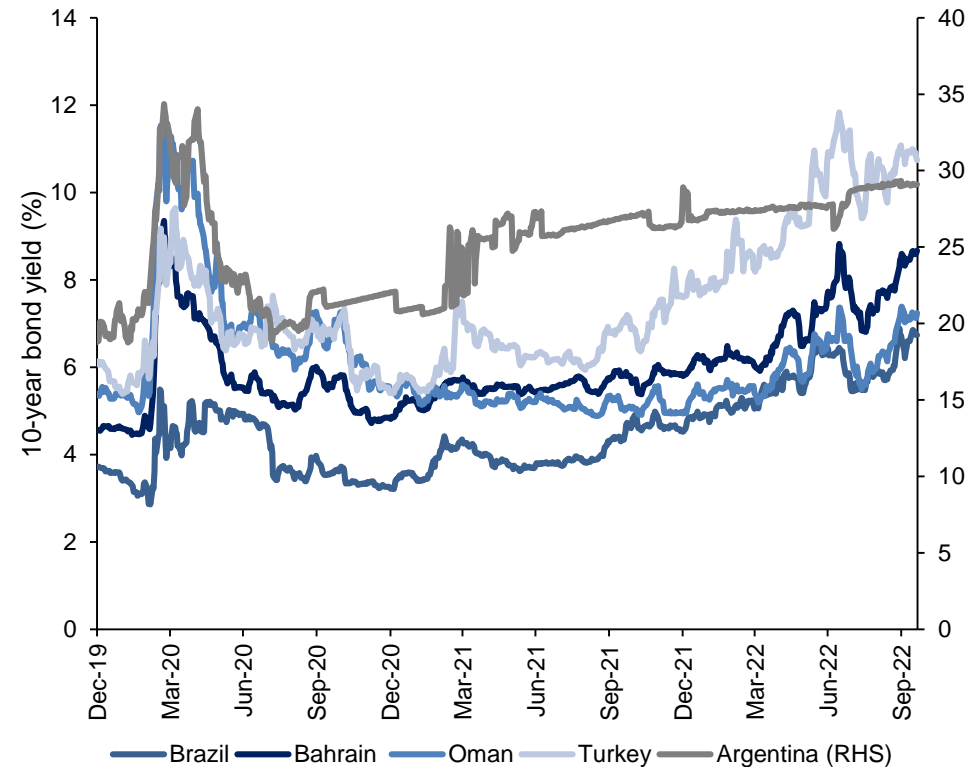
Source: Bloomberg, Barclays indices, ADCB

# GCC Sovereign: 10-year dollar bond yield performance

**GCC sovereigns yields rose, but less compared to EM peers**



**Oman bond yields rose less compared to similar-rated EM peers**

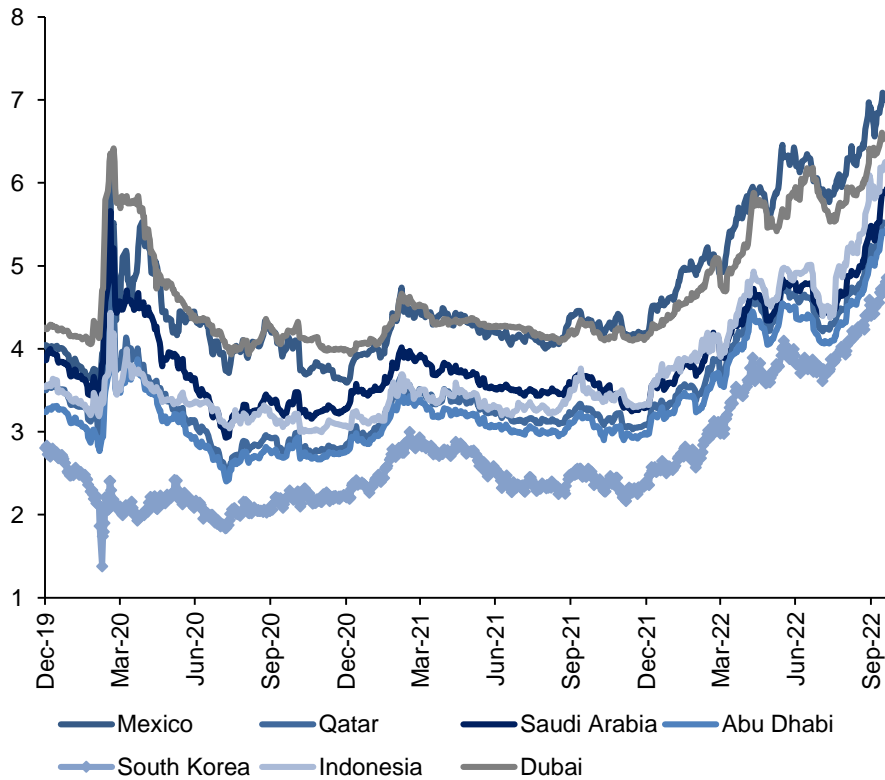


Source: Bloomberg, ADCB

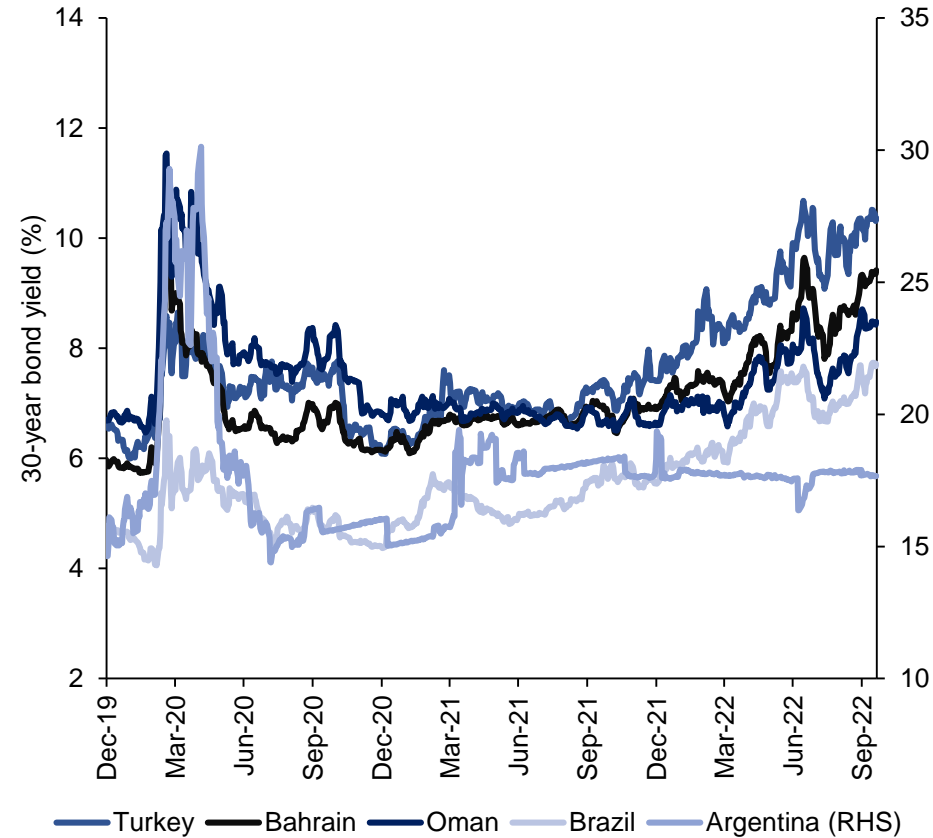


# GCC Sovereign: 30-year dollar bond yield performance

**Dubai is trading at attractive levels versus its EM peers**



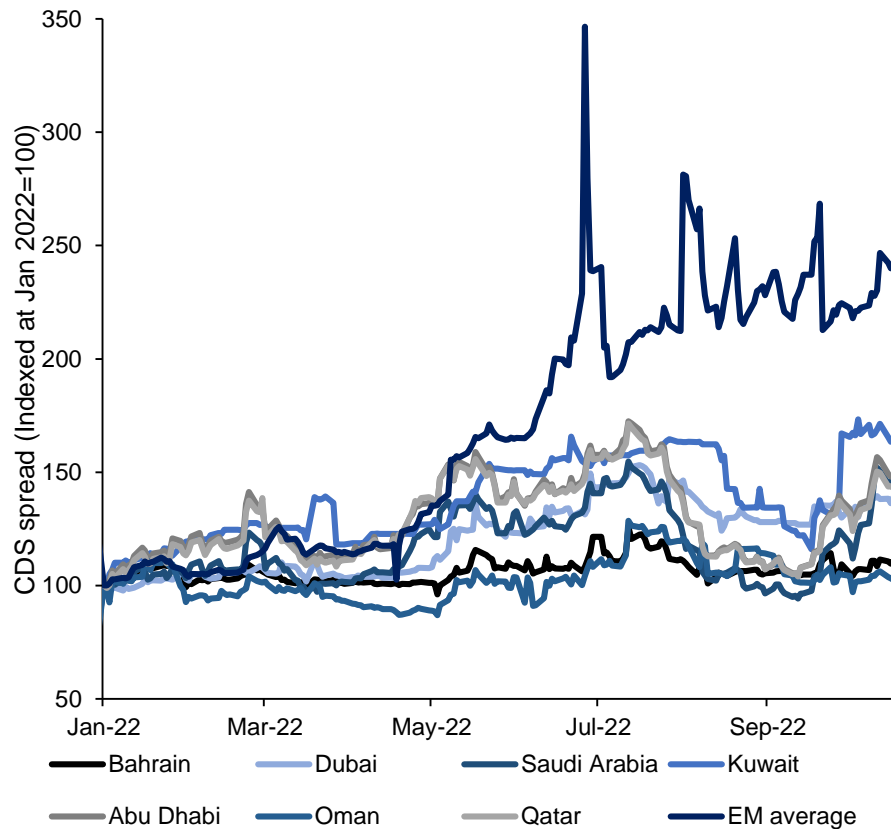
**Oman and Bahrain bond yields edged higher**



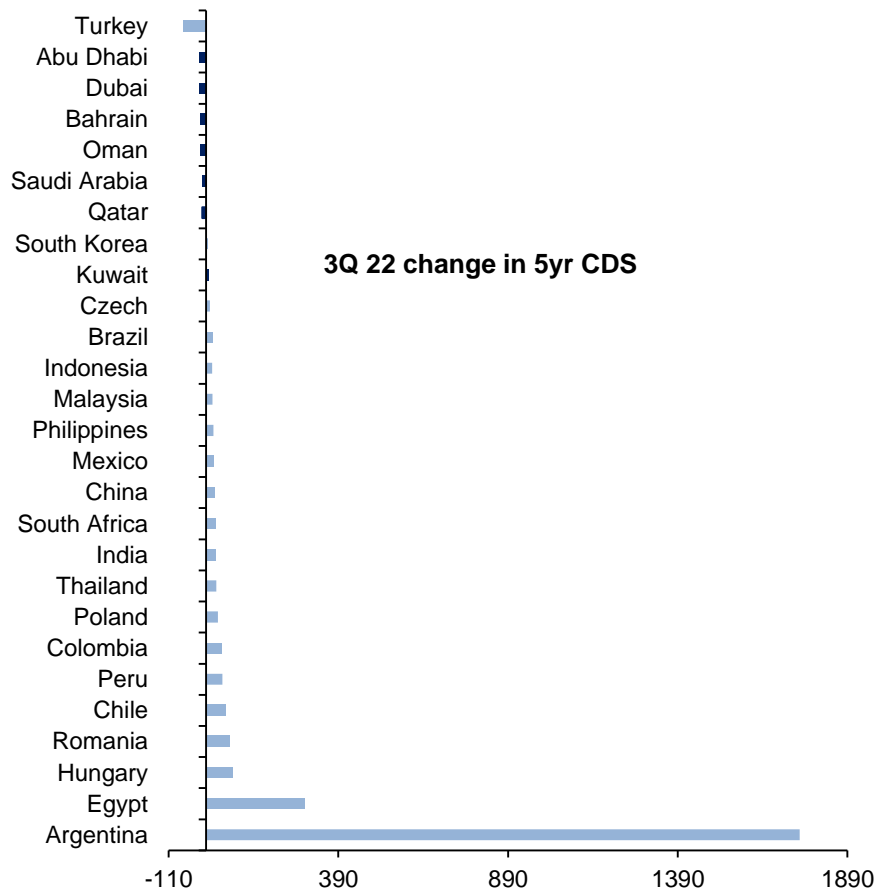
Source: Bloomberg, ADCB

# GCC CDS performance versus EM

**GCC CDS spreads have been relatively stable compared to EM average**



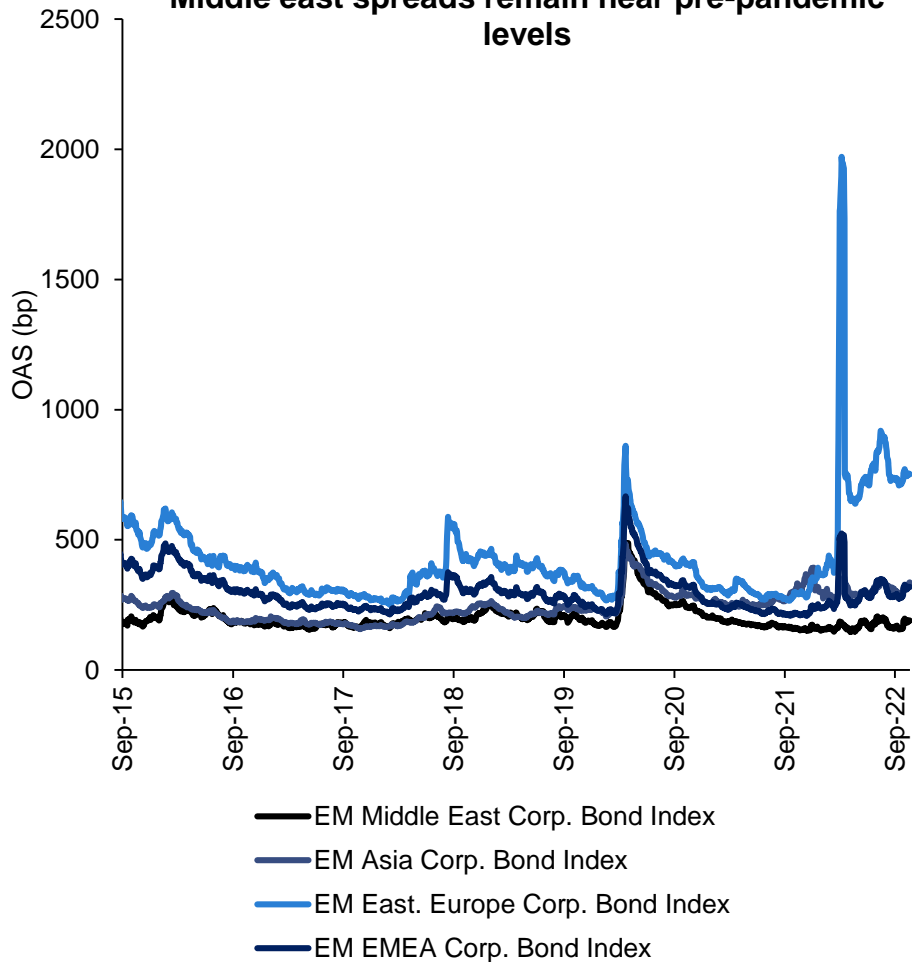
**GCC spreads tightened in 3Q 22**



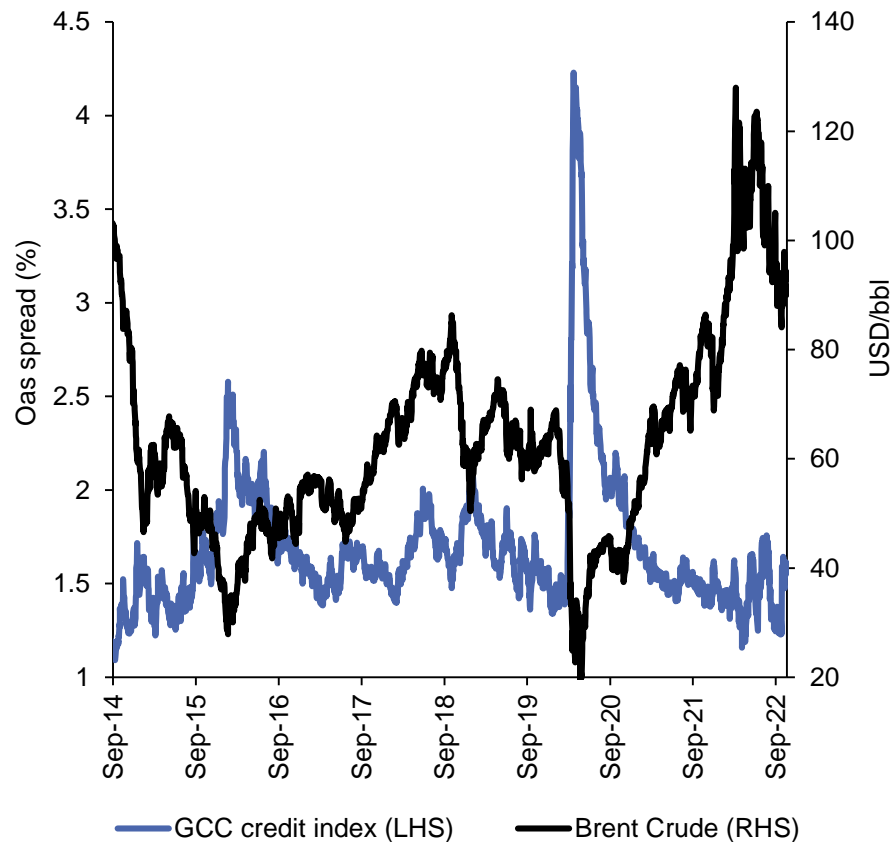
Source: Bloomberg, ADCB

# GCC corporate bond performance

**Middle east spreads remain near pre-pandemic levels**



**GCC credit spreads widened slightly with decline in oil prices**



Source: Credit Suisse Indices, Bloomberg Barclays Indices, Bloomberg, ADCB

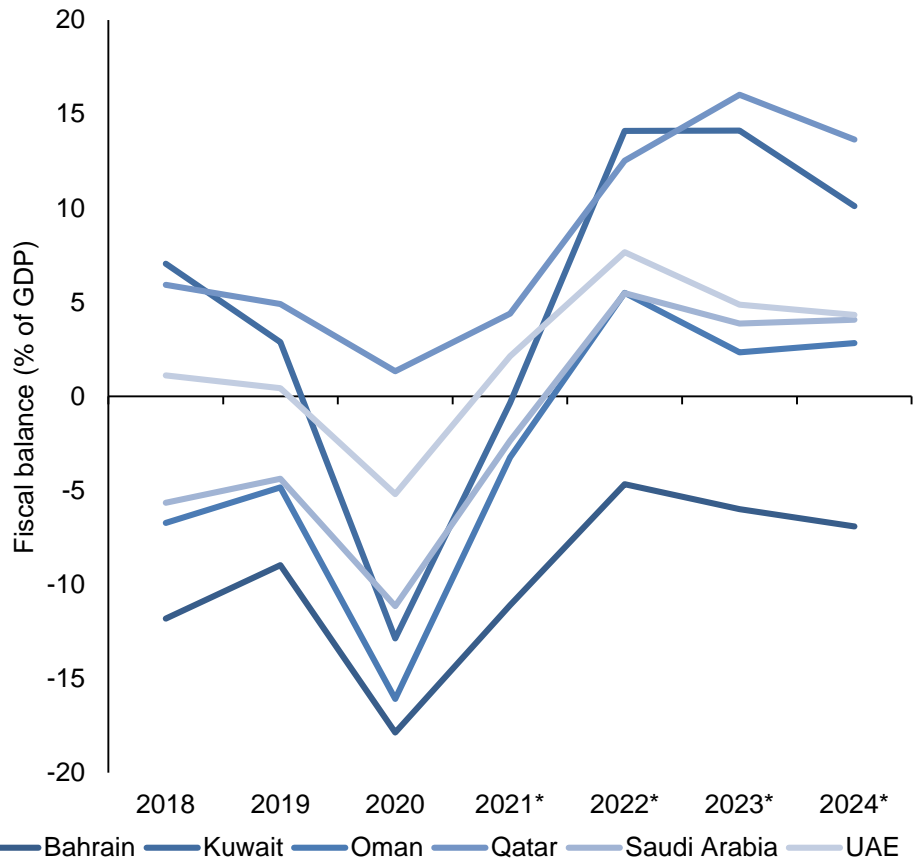
# Chapter II: Primary market bond issuances in GCC



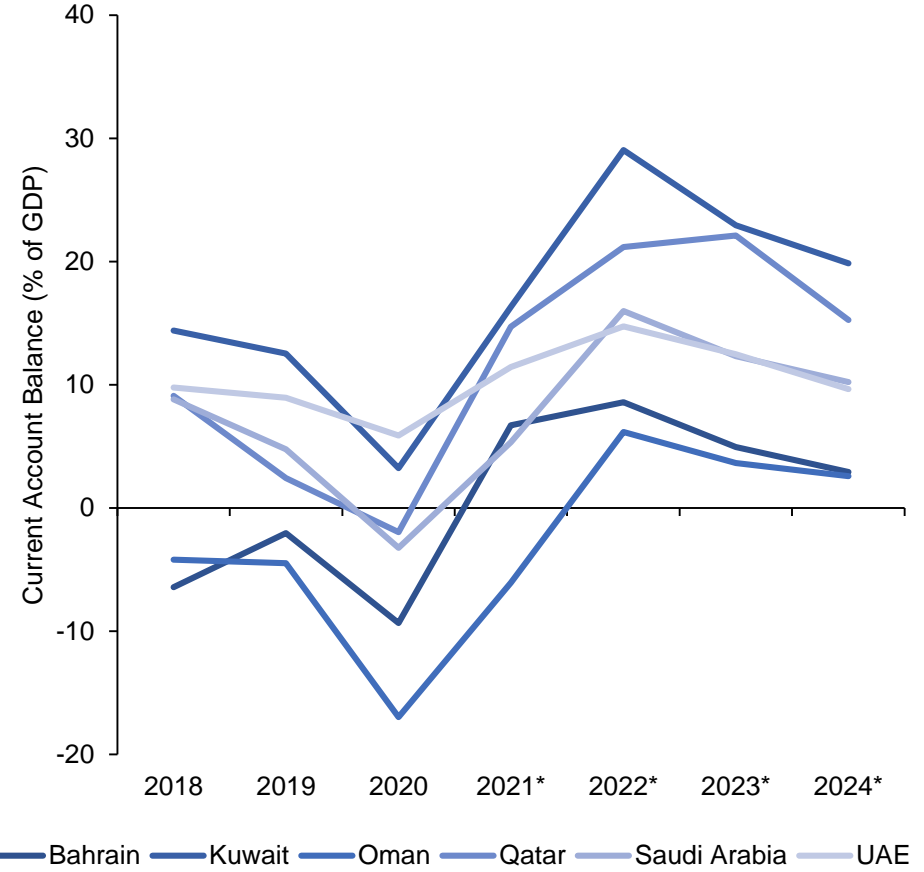
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# GCC economies twin balances to improve in 2022

**GCC fiscal balances improved in 2022**



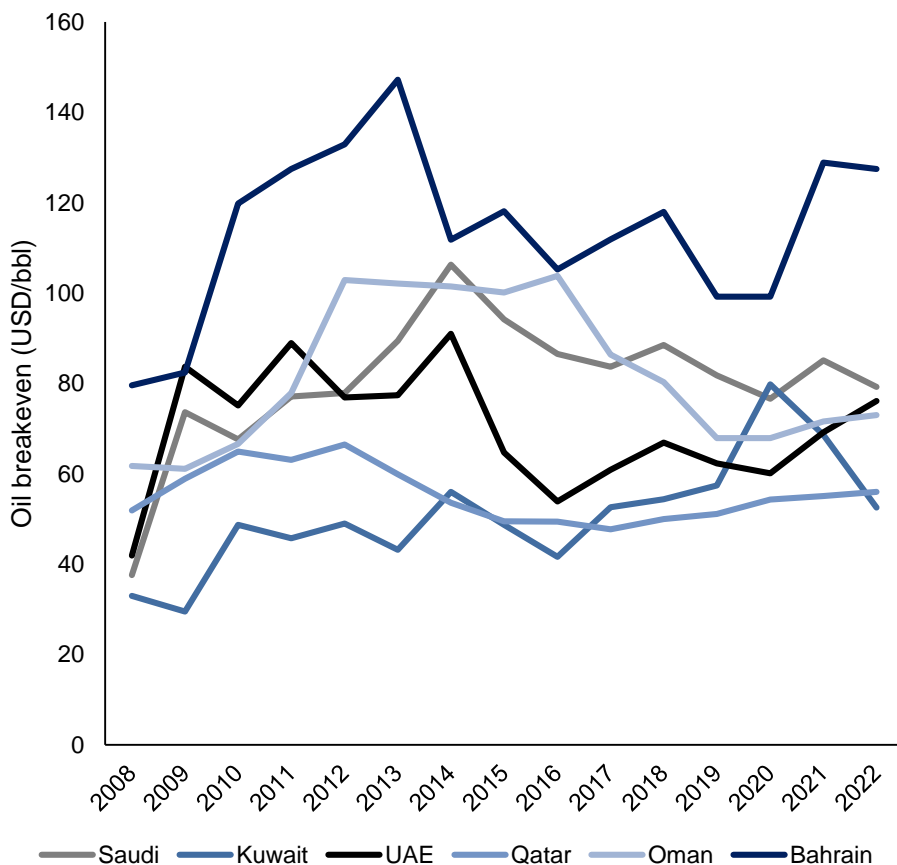
**External balances have improved**



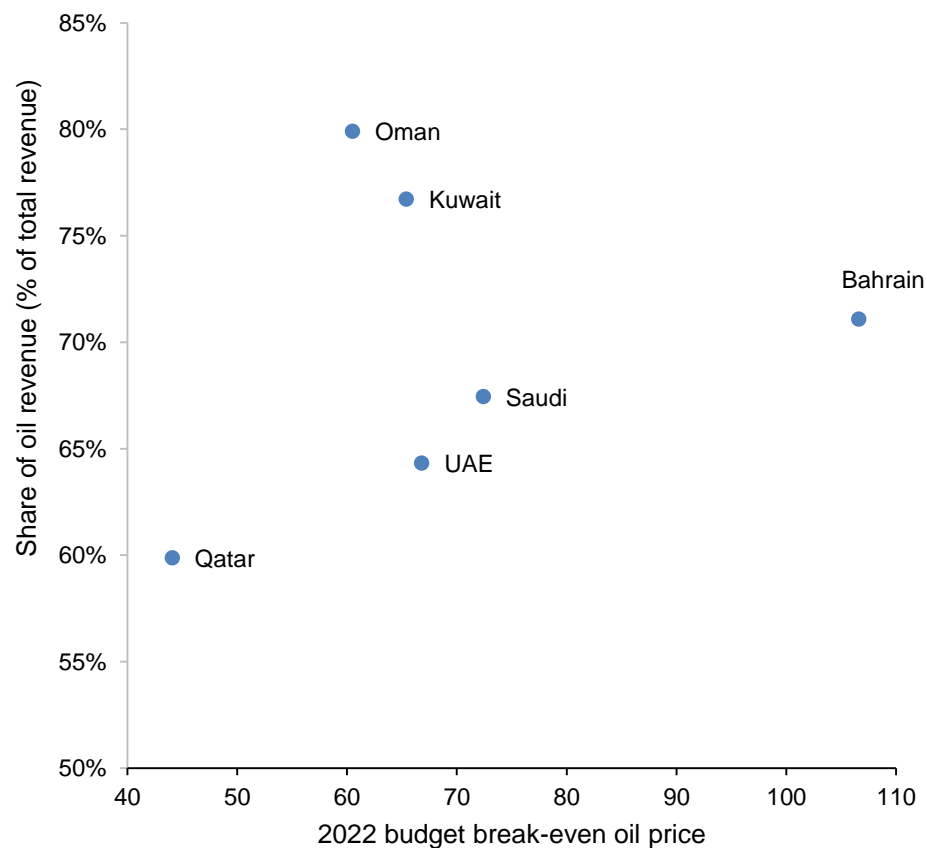
\*IMF estimates  
 Source: IMF, ADCB

# Dependency on oil has reduced, but still significant

### Oil breakevens have declined

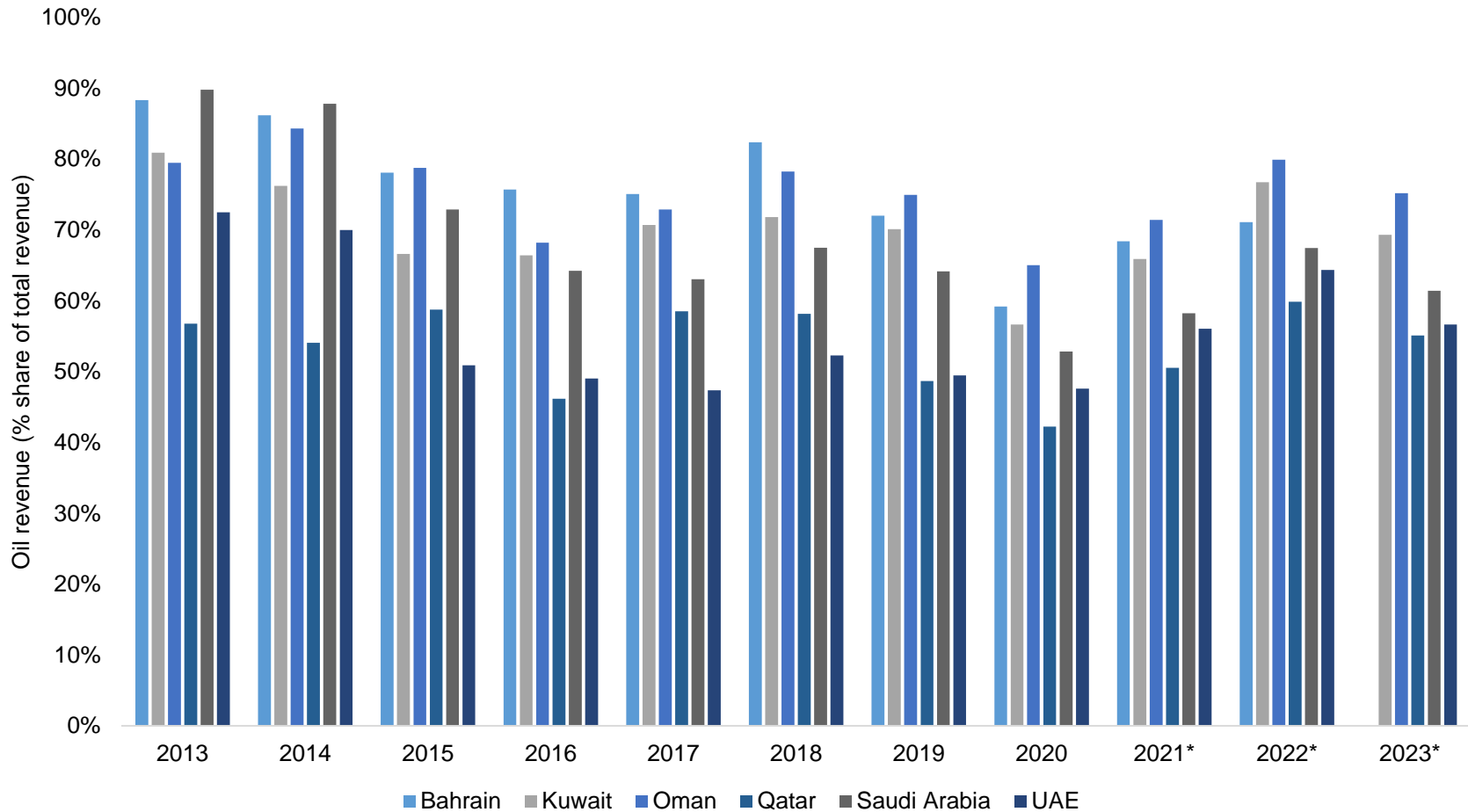


### Dependency on Oil revenue



Source: IIF, Bloomberg, ADCB

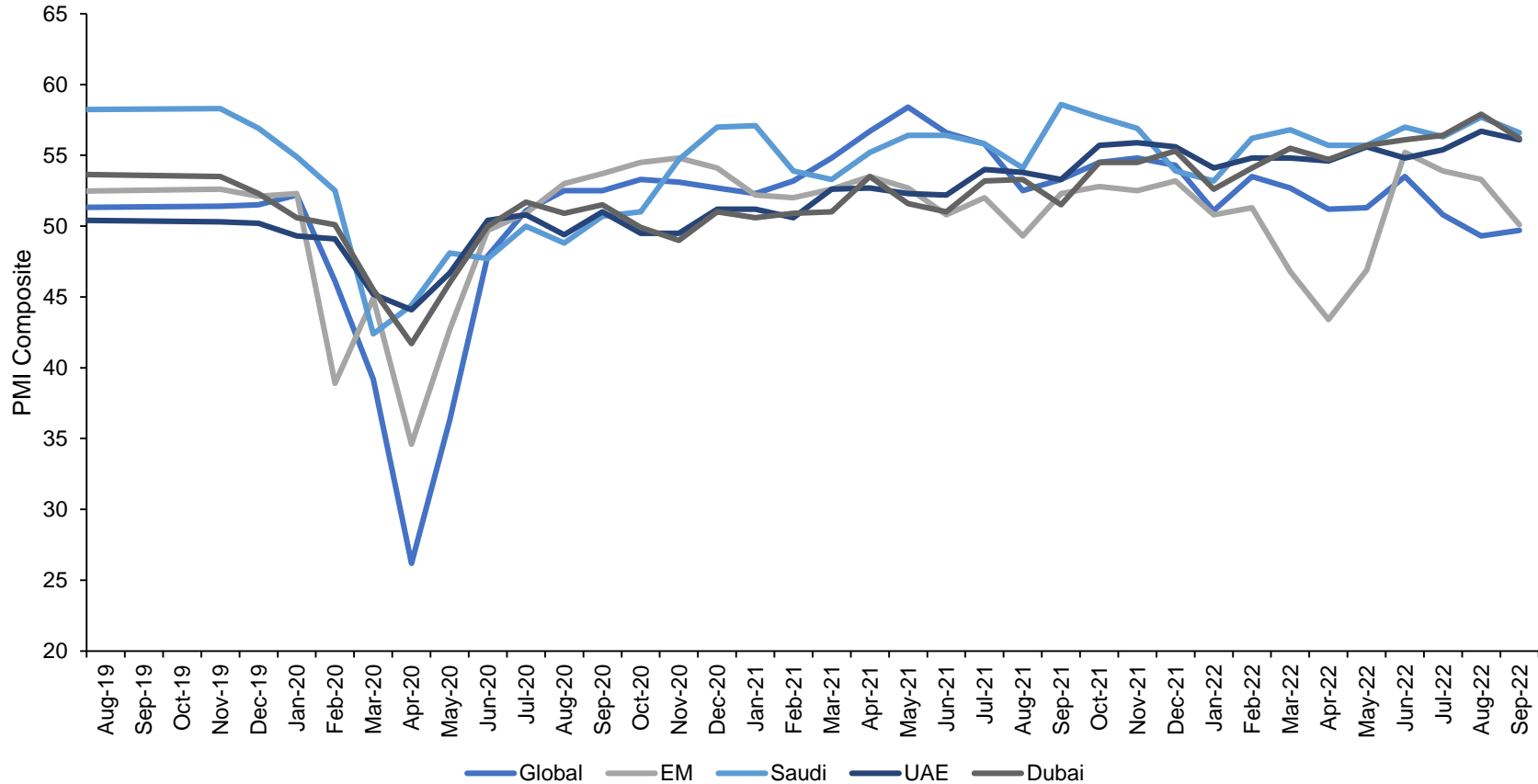
# More diversification needed



Note: \* are IIF estimates Source: IIF, ADCB

# GCC economies exhibit strong resilience

Saudi and UAE PMI in expansionary territory

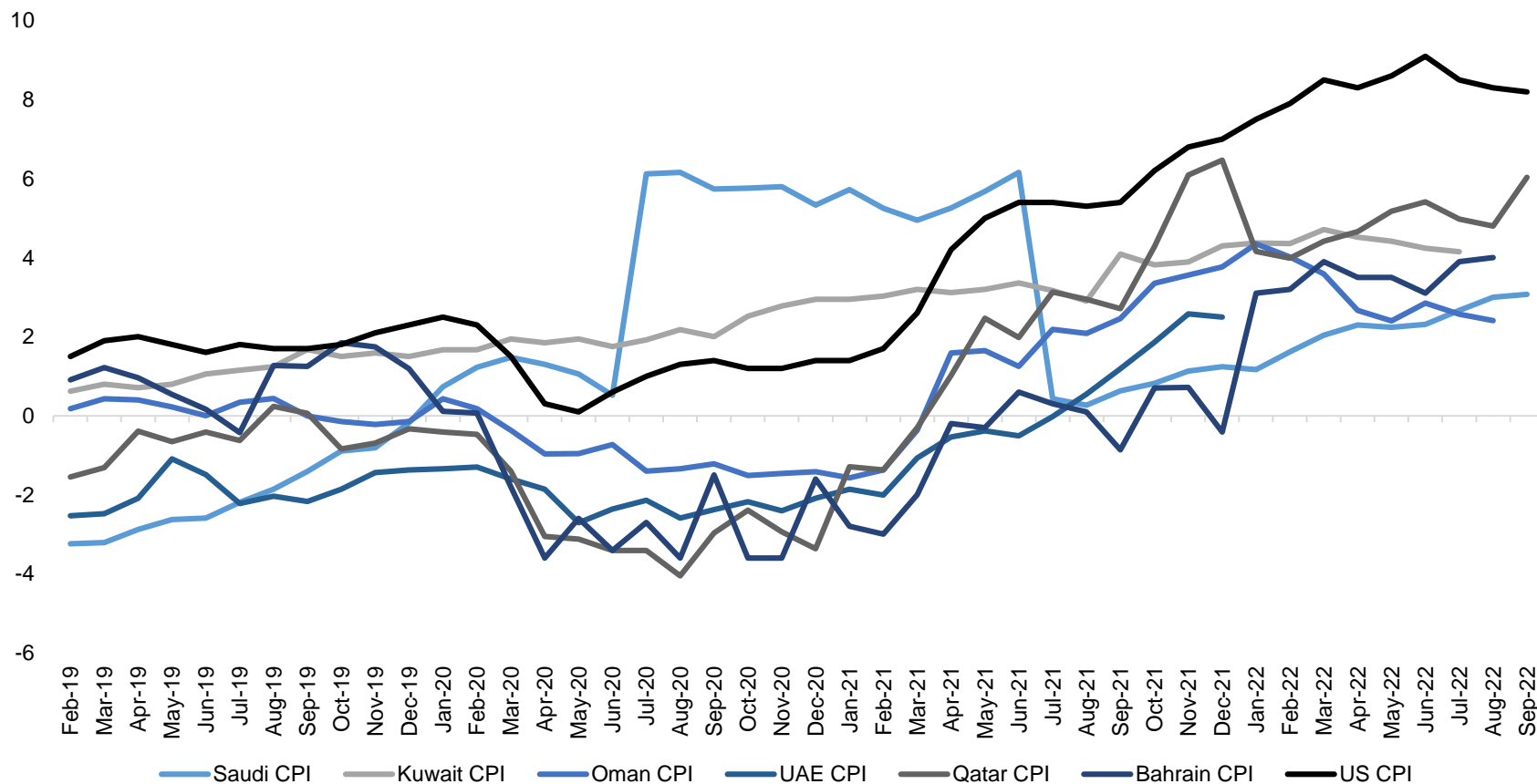


Source: Bloomberg, ADCB



# GCC inflation remains low

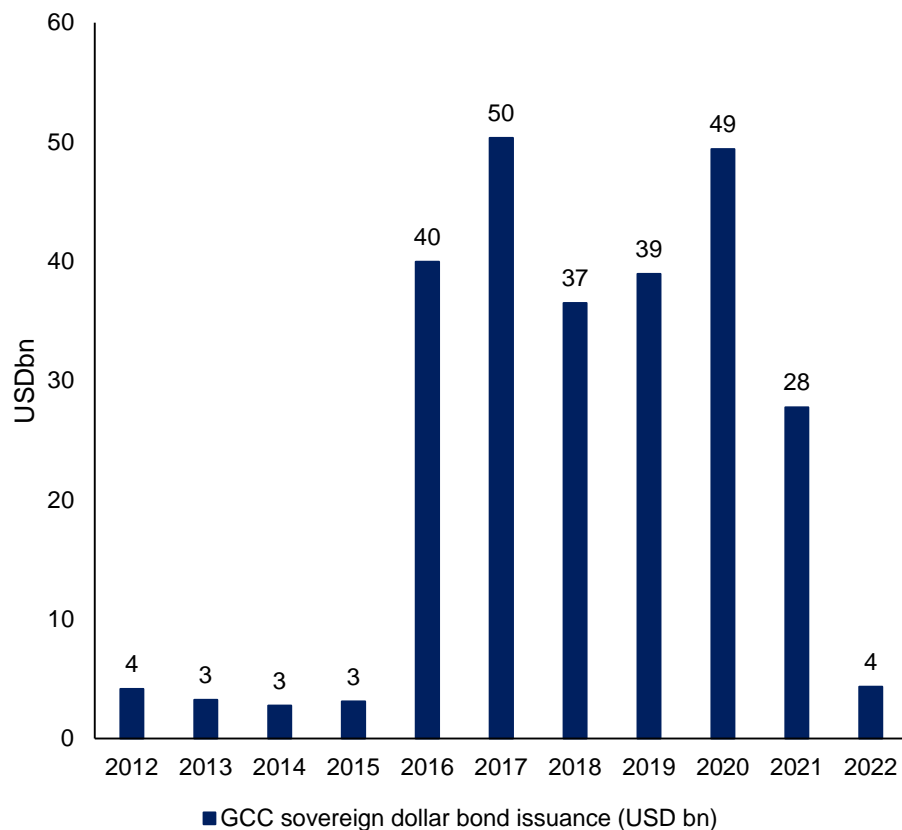
### GCC inflation stable compared to DM inflation



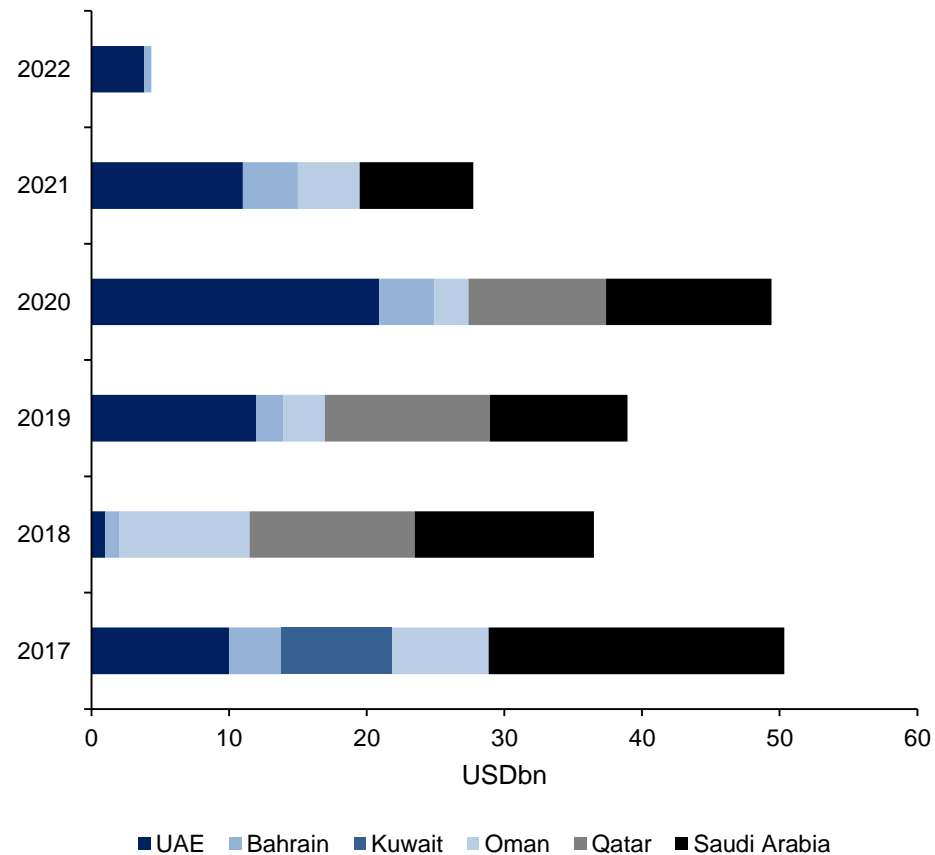
Source: Bloomberg, ADCB

# Sovereign dollar bond issuance absent in 3Q 22

### Sovereign dollar bond issuance subdued in Jan-Sep 22



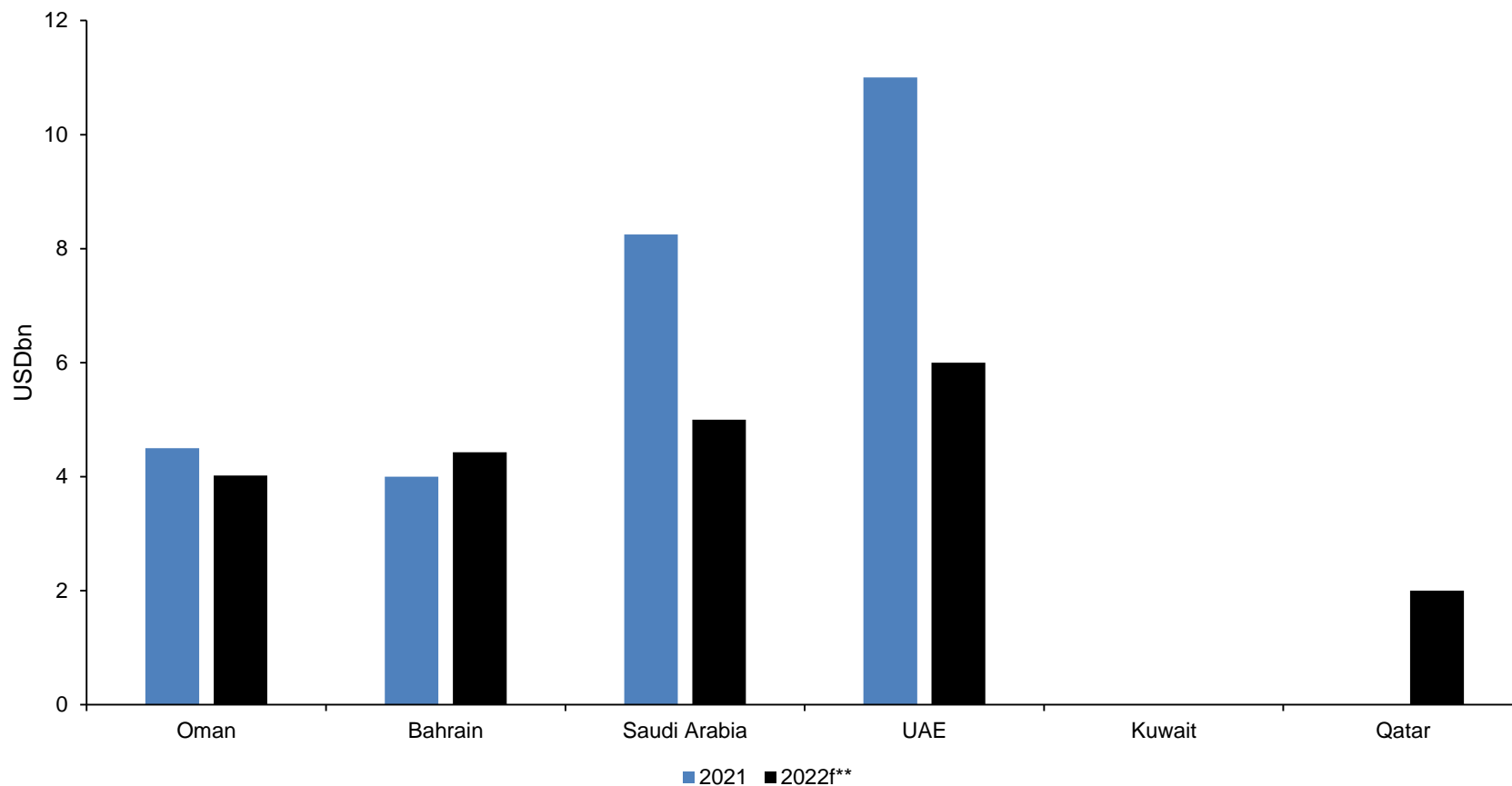
### UAE and Bahrain issued in 3Q22



Note: 2022 issuance from 1 January 2022- 30<sup>th</sup> September 2022 Source: Bloomberg, ADCB

# GCC borrowings lower in 2022

### GCC sovereigns to borrow less in 2022

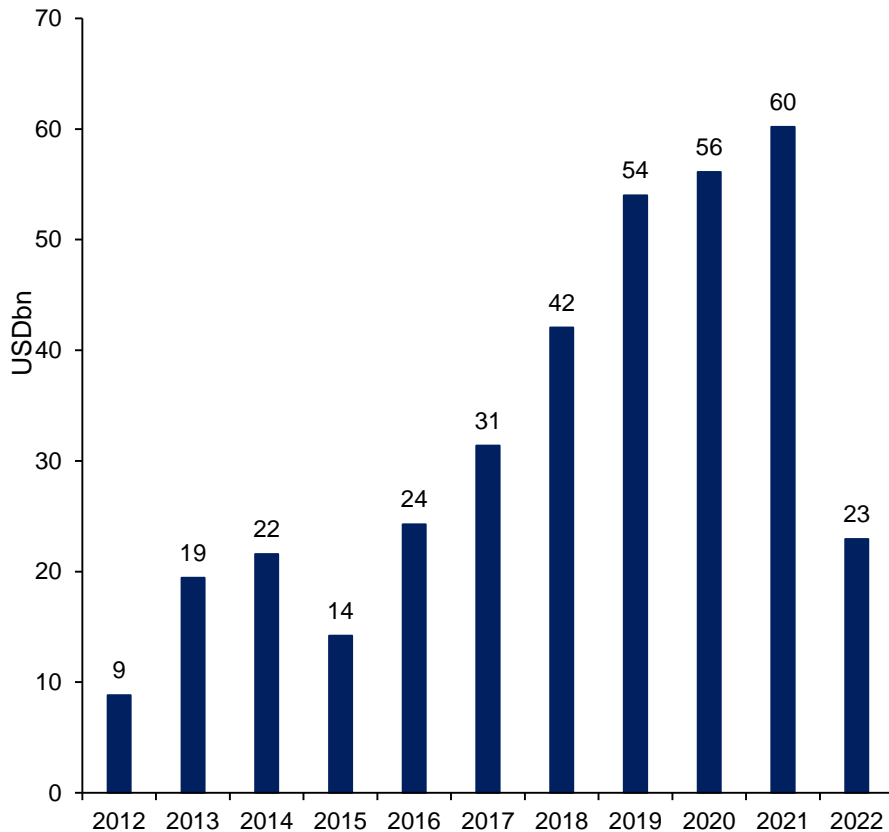


Note: \*\*f refers to ADCB forecasts

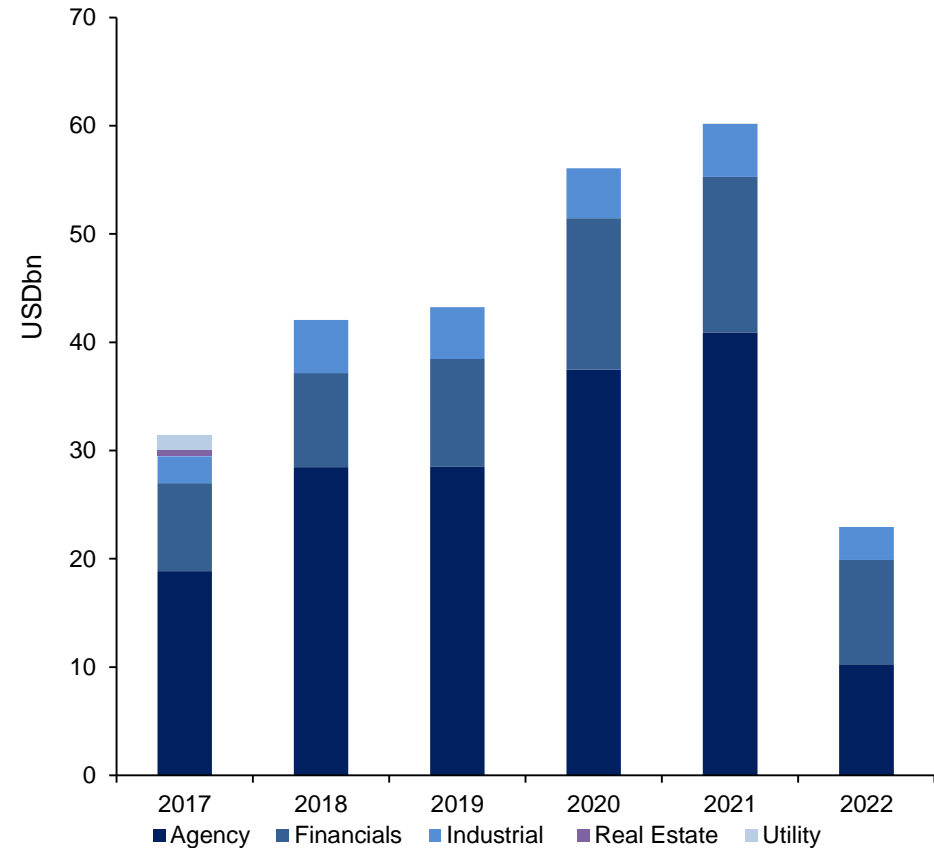
Source: ADCB

# Corporate issuances subdued in 3Q 22

**Corporate dollar bond issuance has been subdued**



**Agencies dominated issuance in 2022 so far**



Note: 2022 issuance from 1 January 2022- 30<sup>th</sup> September 2022

Source: Bloomberg, ADCB

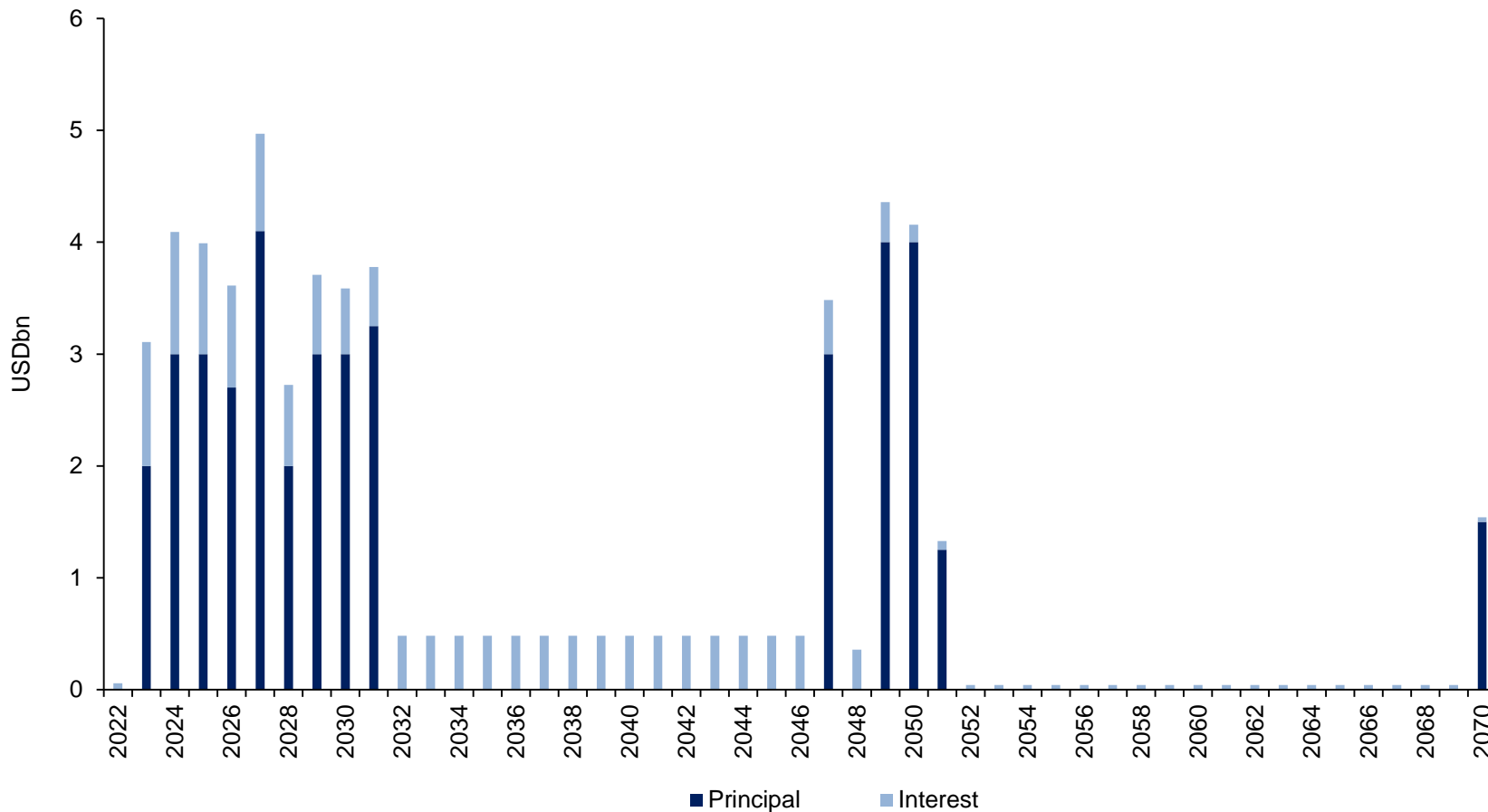
Bloomberg classification used for corporates

# Major corporate dollar bond deals in January-September 2022

Corporate Issuer	Bloomberg Ticker	Sector	Country	Amount Issued	Coupon	Maturity	Maturity Type	Issue Date	Moody Rtg <sup>^</sup>	Priced at issue (spread, bp) <sup>*</sup>
EIG Pearl Holdings Sarl	EIGPRL	Industrial	SA	1250	4.39	11/30/2046	SINKABLE	1/25/2022	A1	T+235
EIG Pearl Holdings Sarl	EIGPRL	Industrial	SA	1250	3.55	8/31/2036	SINKABLE	1/25/2022	A1	T+185
MDGH GMTN RSC Ltd	MUBAUH	Agency	AE	1000	3.38	3/28/2032	CALLABLE	3/28/2022	Aa2	T+120
SNB Sukuk Ltd	SNBAB	Agency	SA	750	2.34	1/19/2027	AT MATURITY	1/19/2022	A3**	T+85
Riyad Tier 1 Sukuk Ltd	RIBL	Financial Institutions	SA	750	4.00	-	PERP/CALL	2/16/2022	-	T+217
DIB Sukuk Ltd	DIBUH	Financial Institutions	AE	750	2.74	2/16/2027	AT MATURITY	2/15/2022	A3	T+95
Sweihan PV Power Co PJSC	SWEHAN	Agency	AE	701	3.63	1/31/2049	SINKABLE	1/21/2022	Baa1	T+191
Abu Dhabi Commercial Bank PJSC	ADCBUH	Agency	AE	500	4.50	9/14/2027	AT MATURITY	9/14/2022	A1	T+115
MAF Global Securities Ltd	MAFUAE	Financial Institutions	AE	500	7.88	-	PERP/CALL	6/30/2022	Ba1**	-
Fab Sukuk Co Ltd	FABUH	Agency	AE	500	2.59	3/2/2027	AT MATURITY	3/2/2022	Aa3	T+70
Abu Dhabi Commercial Bank PJSC	ADCBUH	Agency	AE	500	3.50	3/31/2027	AT MATURITY	3/31/2022	A1	T+115
MDGH GMTN RSC Ltd	MUBAUH	Agency	AE	500	3.00	3/28/2027	CALLABLE	3/28/2022	Aa2	T+80
Boubyan Sukuk Ltd	BOUSUK	Financial Institutions	KW	500	3.39	3/29/2027	AT MATURITY	3/29/2022	A2**	T+100
Dar Al-Arkan Sukuk Co Ltd	DARALA	Financial Institutions	SA	400	7.75	2/7/2026	AT MATURITY	7/7/2022	B1	-
QIC Cayman Ltd	QATIQD	Financial Institutions	QA	400	6.75	-	PERP/CALL	7/7/2022	Baa1**	-

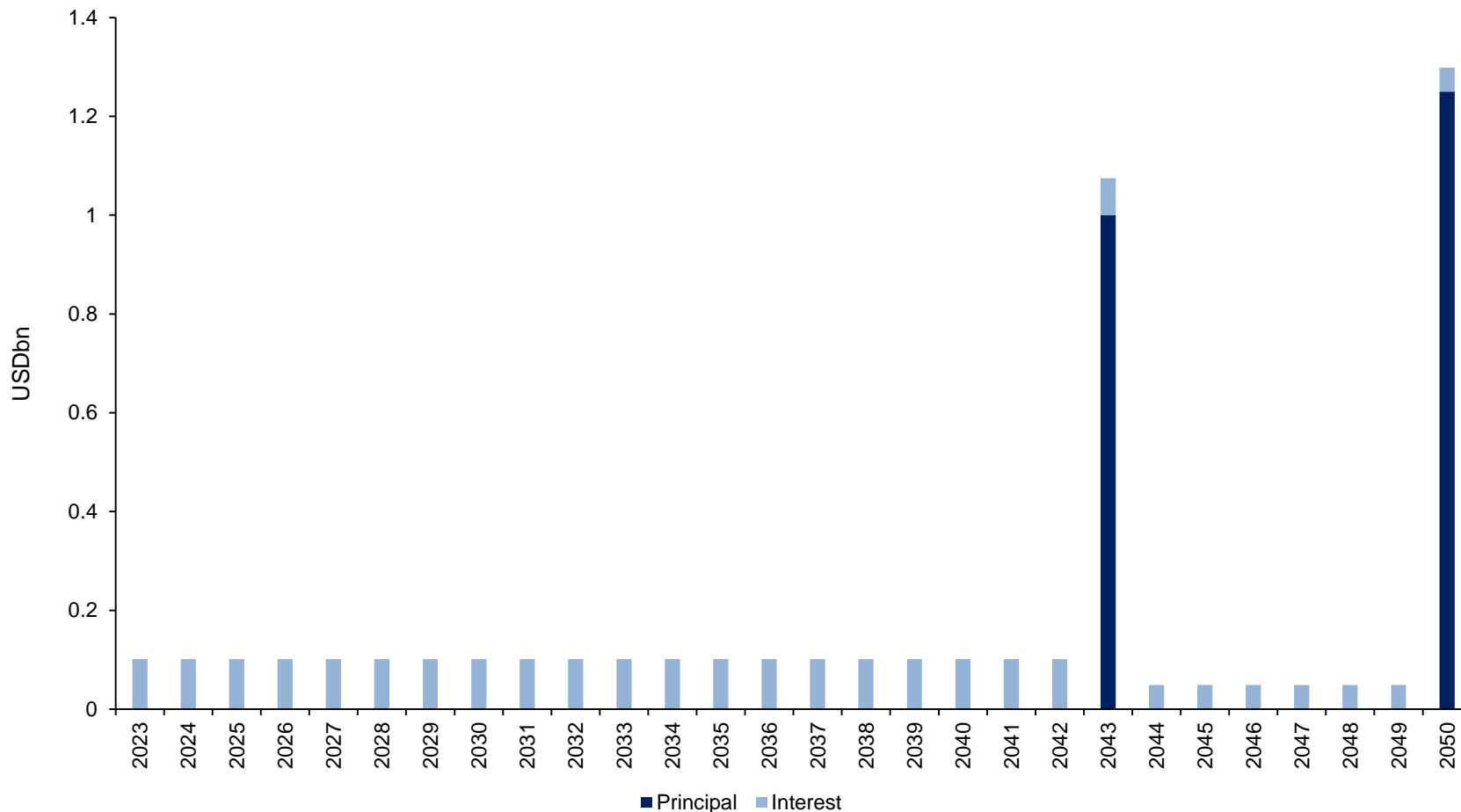
Note: Deals of only amount issued greater than USD250m are shortlisted, <sup>\*</sup>Priced at issue indicated as spread over Treasury (T) or as mid-swap spread (M), Bloomberg sector classification has been used, <sup>\*\*</sup>Rated by Fitch rating (Moody's rating equivalent has been used)

# Abu Dhabi Sovereign Dollar Debt Maturity Profile



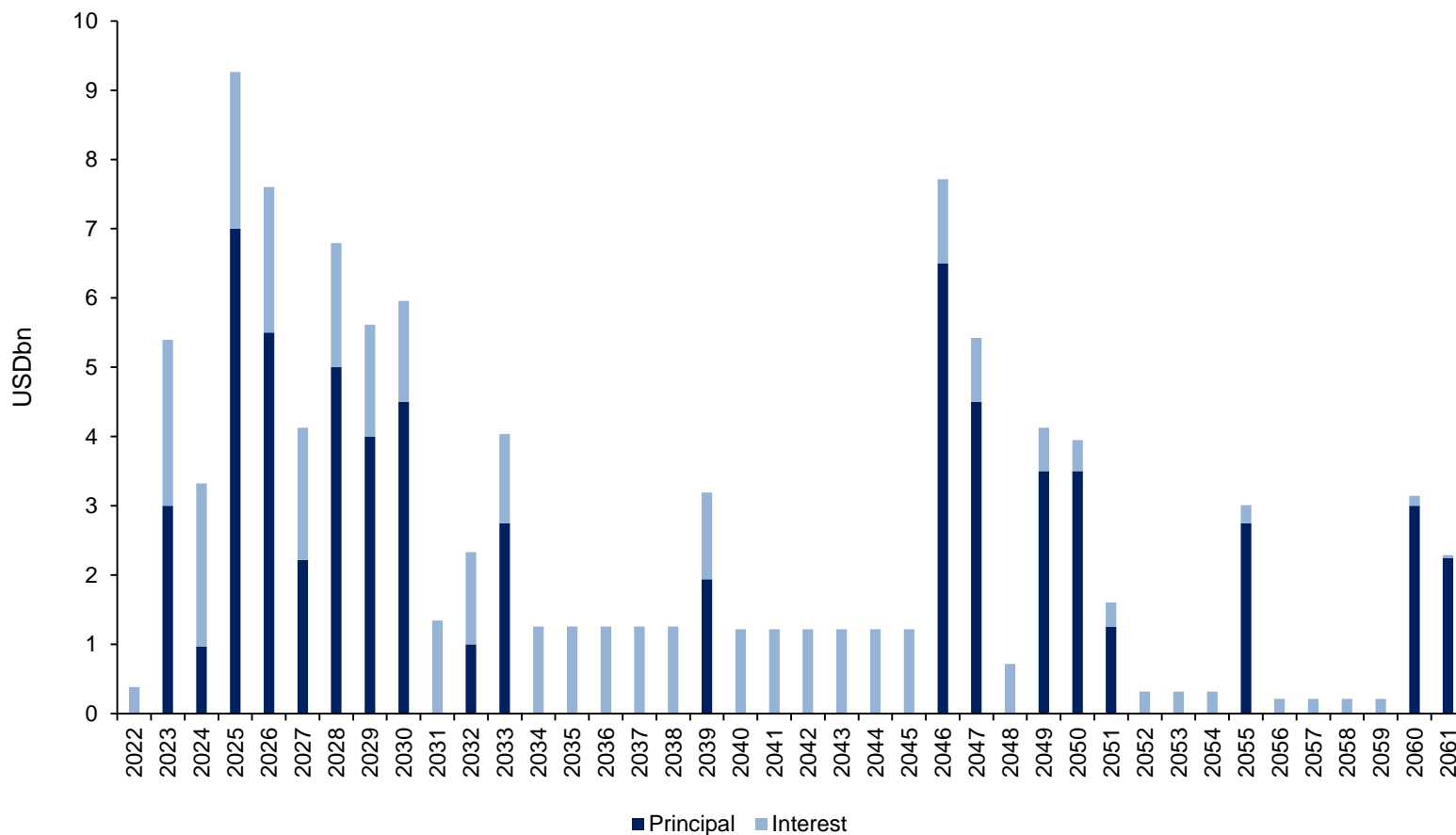
Source: Bloomberg, ADCB

# Dubai Sovereign Dollar Debt Maturity Profile



Source: Bloomberg, ADCB

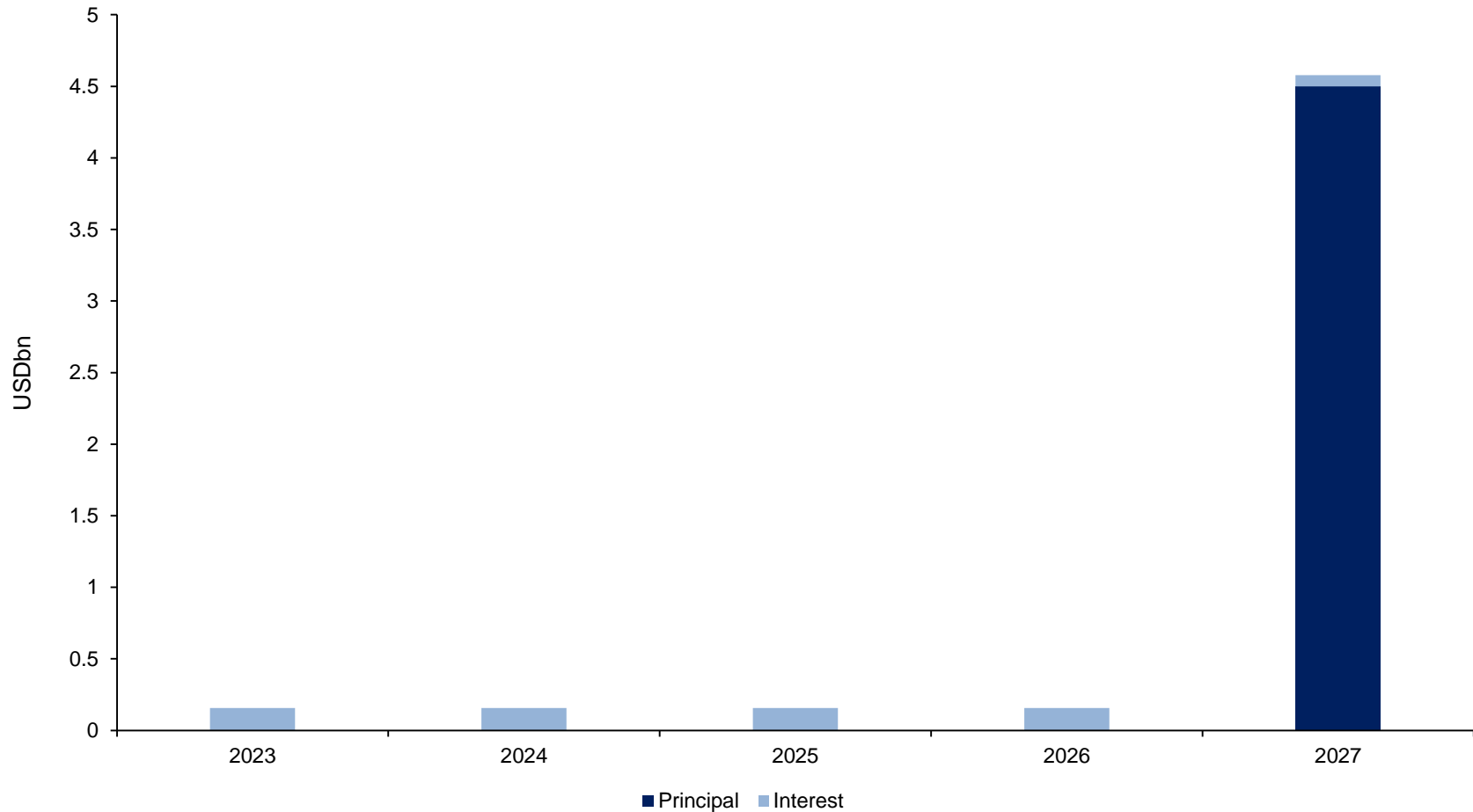
# Saudi Arabia Sovereign Dollar Debt Maturity Profile



Source: Bloomberg, ADCB

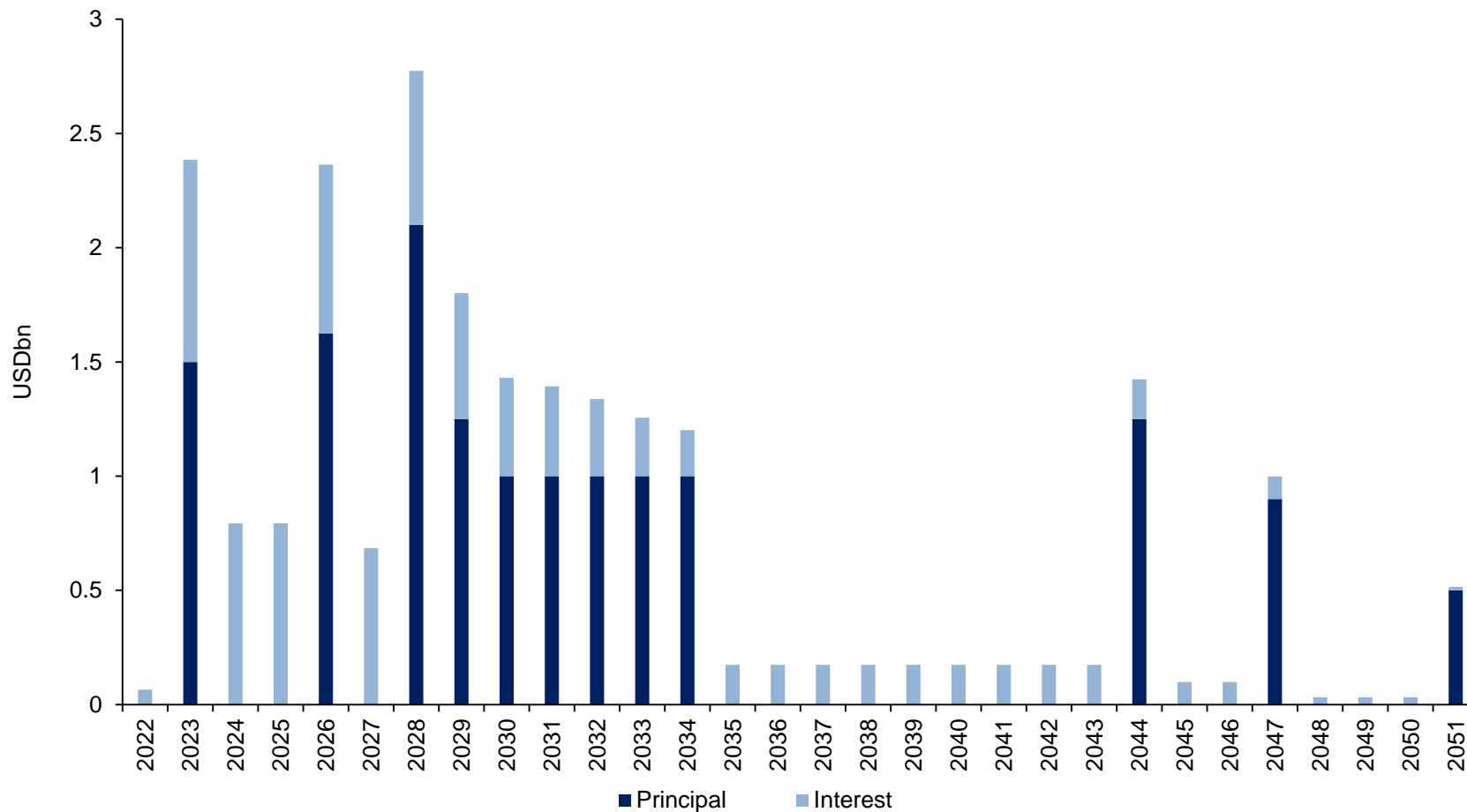


# Kuwait Sovereign Dollar Debt Maturity Profile



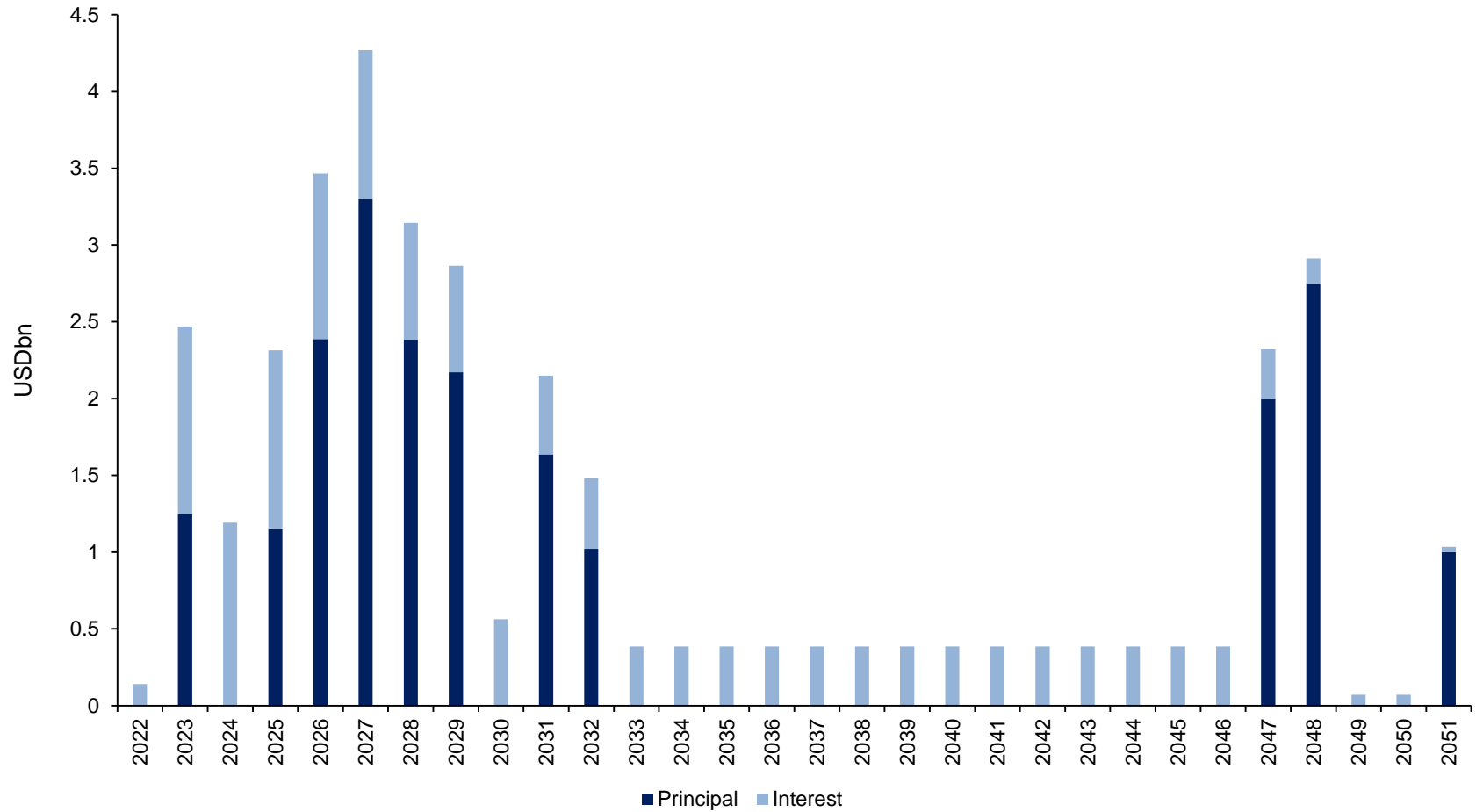
Source: Bloomberg, ADCB

# Bahrain Sovereign Dollar Debt Maturity Profile



Source: Bloomberg, ADCB

# Oman Sovereign Dollar Debt Maturity Profile



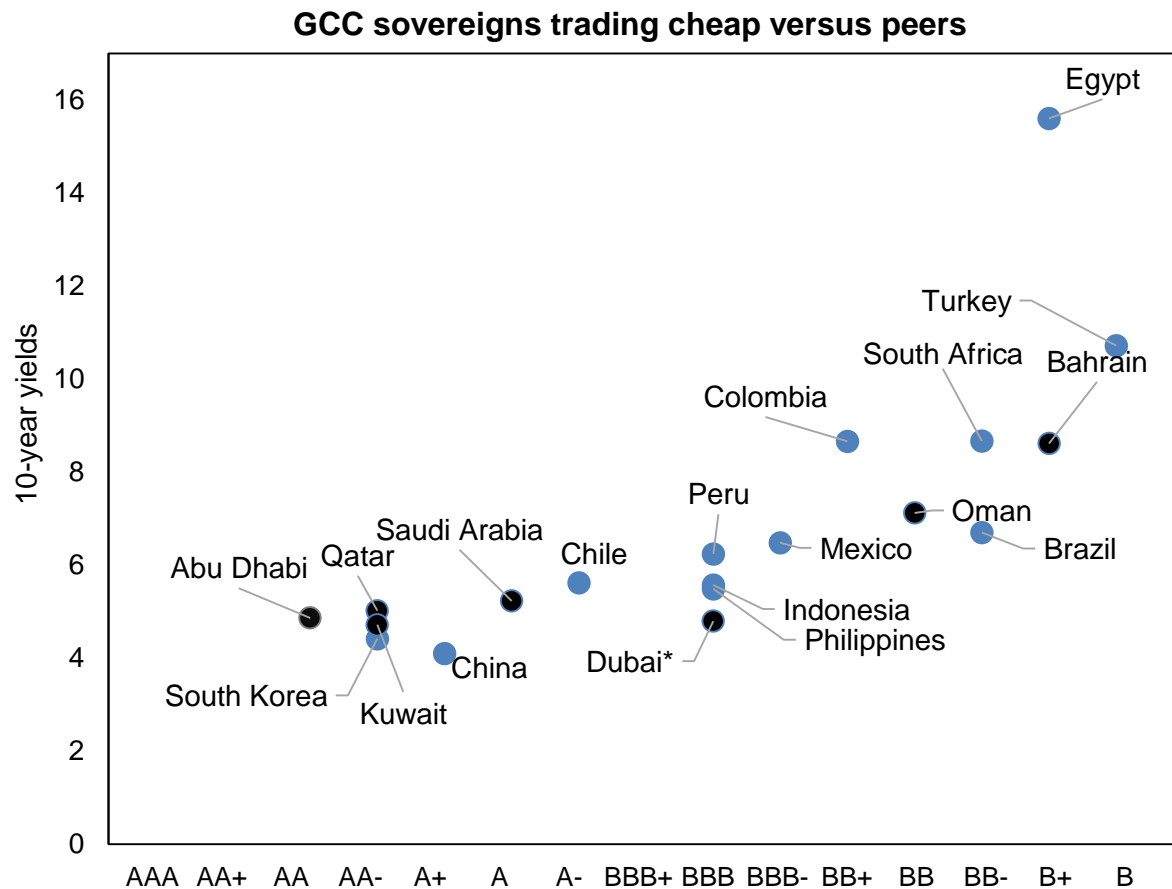
Source: Bloomberg, ADCB

# Chapter III: Credit rating valuation



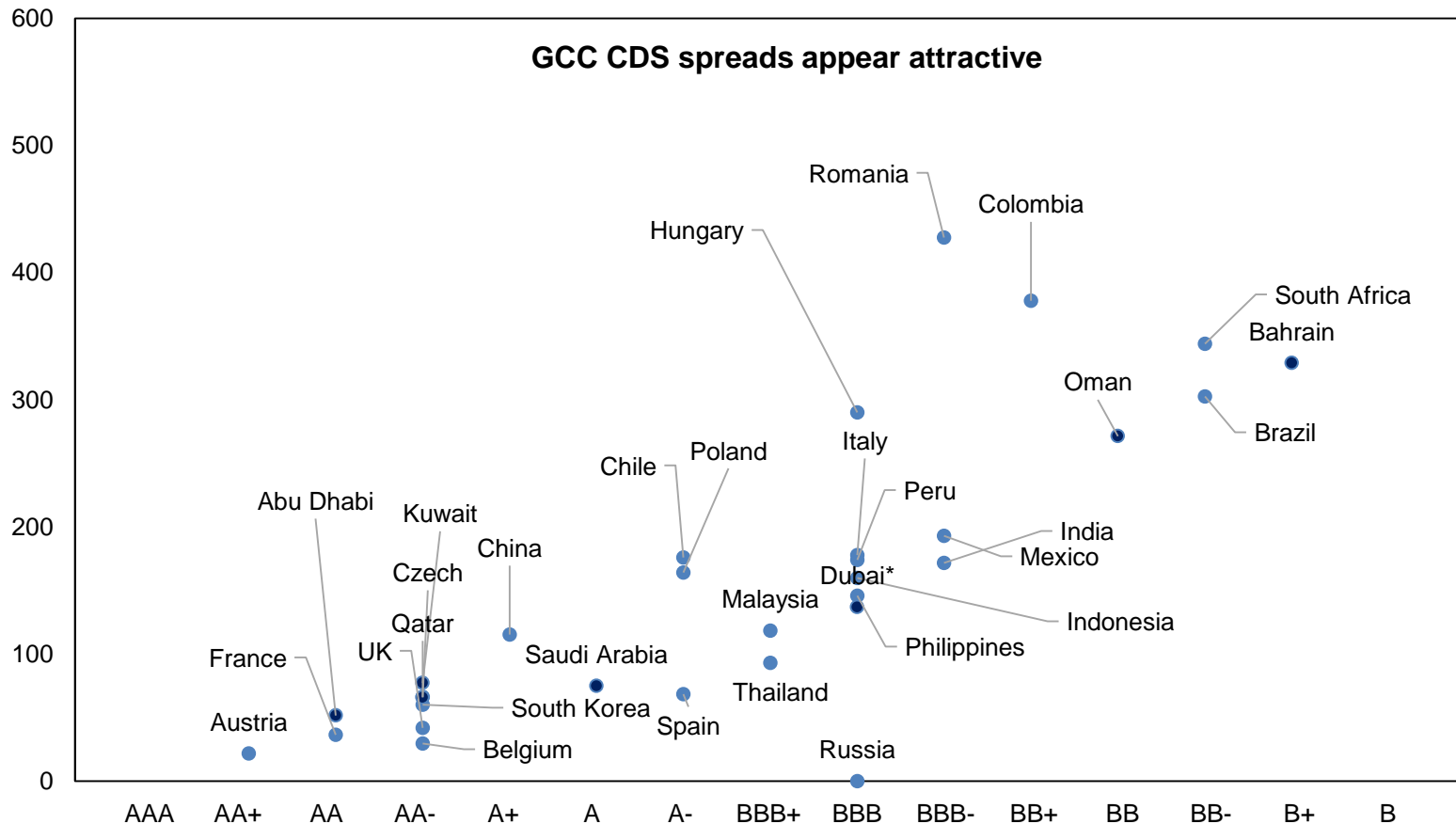
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# GCC sovereigns vs EM peers- 10yr segment



Note: The ratings refer to Fitch ratings, \* DEWA credit rating used as a proxy for Dubai credit rating, data as of 18<sup>th</sup> October 2022  
 Source: Bloomberg, ADCB

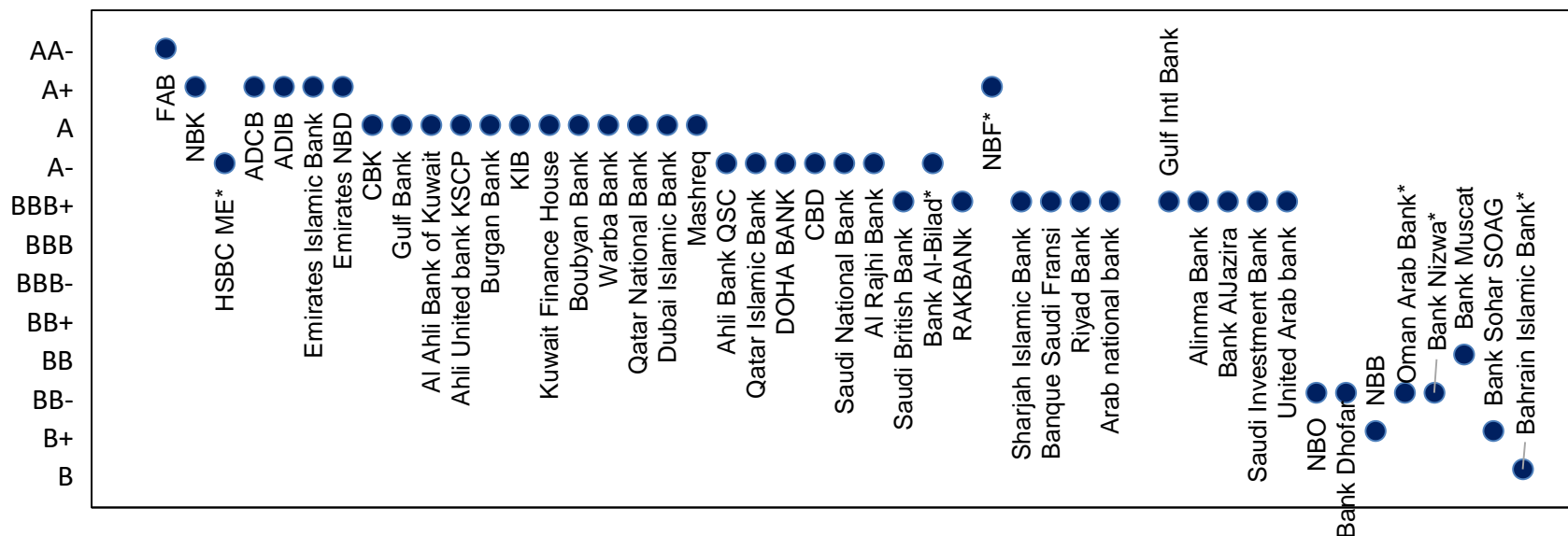
# GCC CDS versus ratings



Note: The ratings refer to Fitch ratings, \* DEWA credit rating used as a proxy for Dubai credit rating, data as of 19<sup>th</sup> October 2022  
 Source: Bloomberg, ADCB

# GCC Financials credit rating

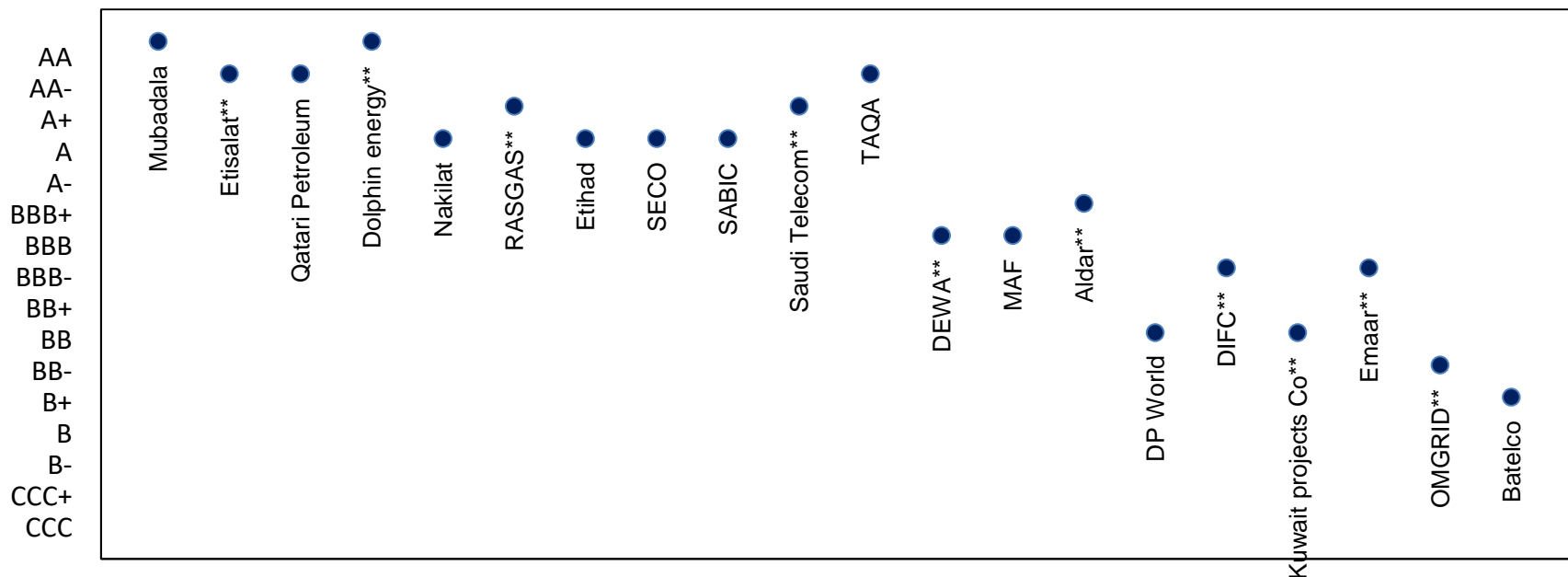
## GCC Financials



Note: The ratings refer to Fitch ratings, \*Moody's rating used as substitute where the corporate/bank not rated by Fitch ratings  
 Source: Bloomberg, ADCB

# GCC Corporates credit rating

GCC Corporates



Note: The ratings refer to Fitch ratings, \*\* Moody's ratings used as substitute where the corporate/bank not rated by Fitch ratings  
 Source: Bloomberg, ADCB

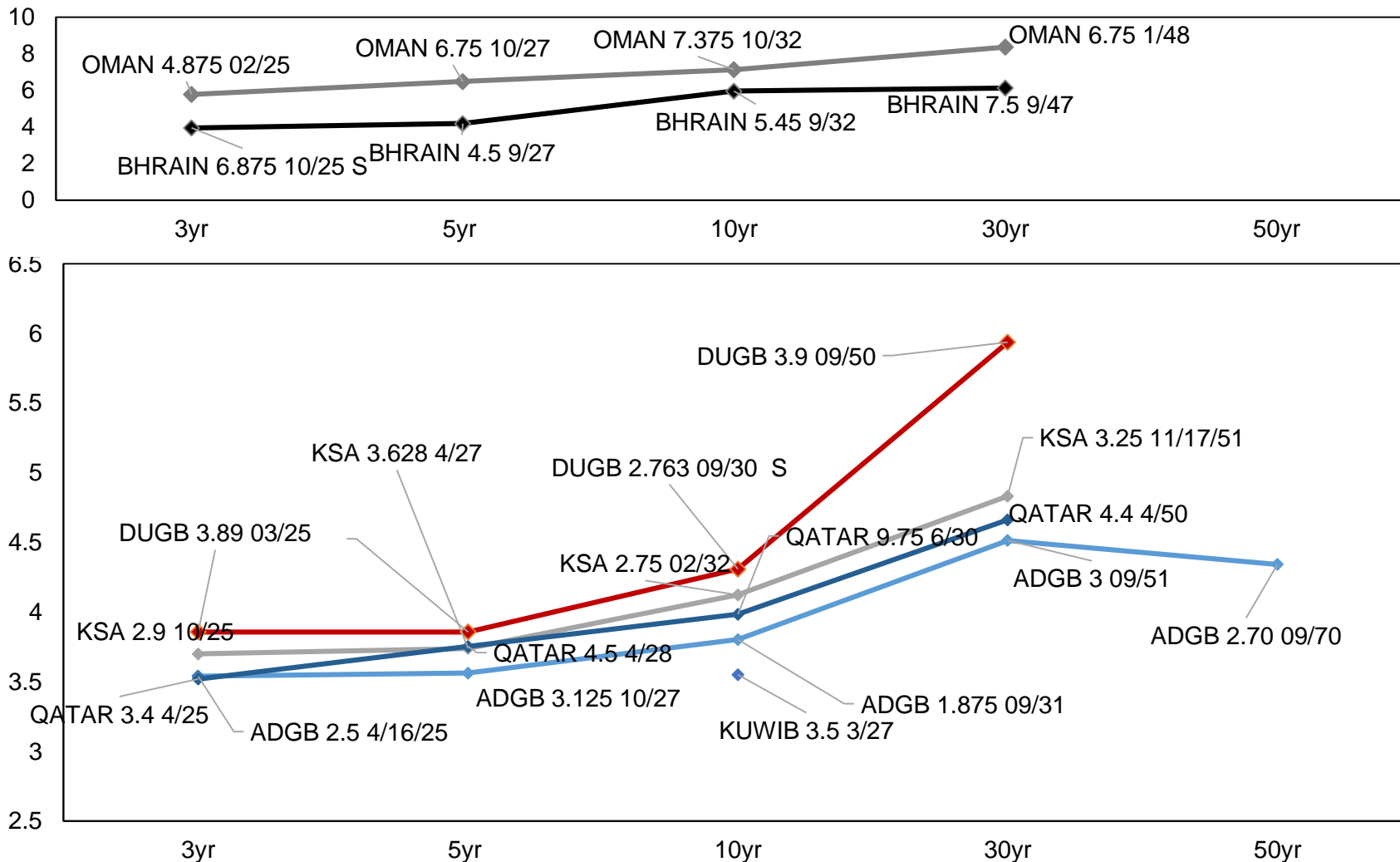


# Chapter IV: GCC valuation analysis



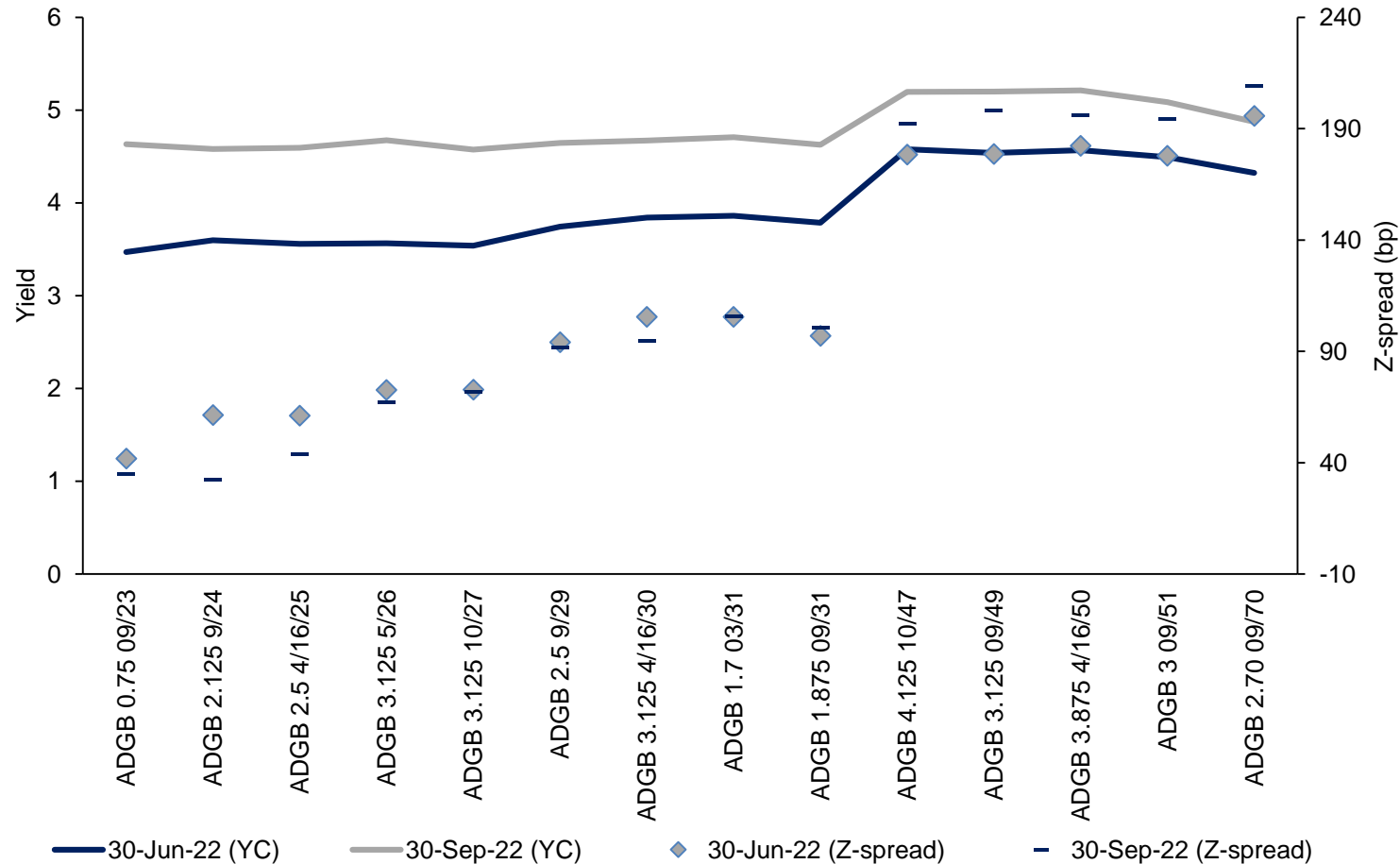
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# GCC sovereign dollar yield curves



Source: Bloomberg, ADCB, Data as of as of 30<sup>th</sup> September 2022 Note: S refers to Sukuk

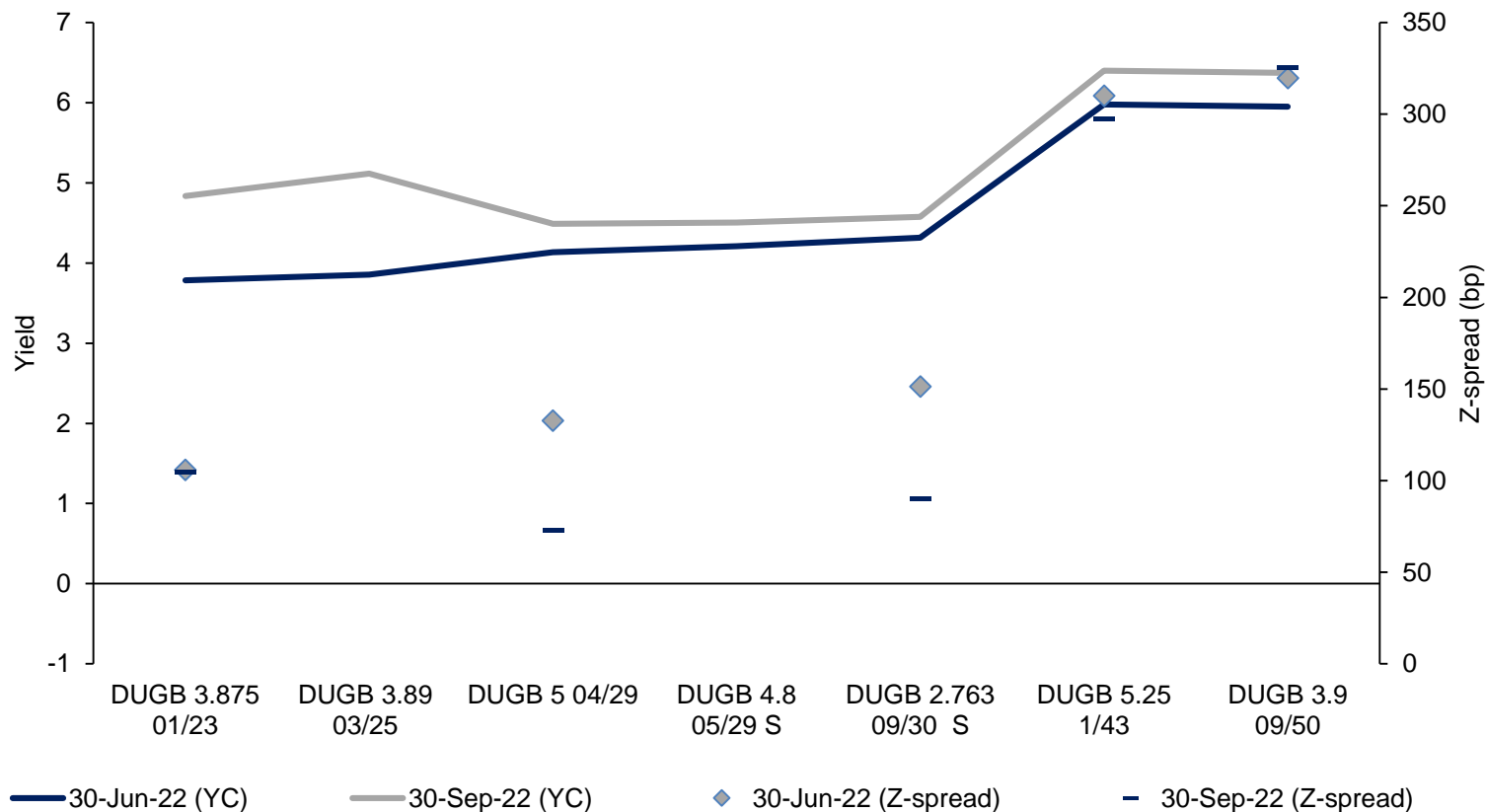
# Abu Dhabi z-spread and yield curve (3Q 22 change)



The **z-spread** is our preferred measure for analyzing the relative value of a bond. The z-spread is the additional yield one gets after having calculated an equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium. Note that the recent general upward shift in the **yield curve** indicates that bonds have sold off across all maturities. Thus yield curve analysis allows us to see which maturities have suffered more and which have suffered less.

Source: Bloomberg, ADCB

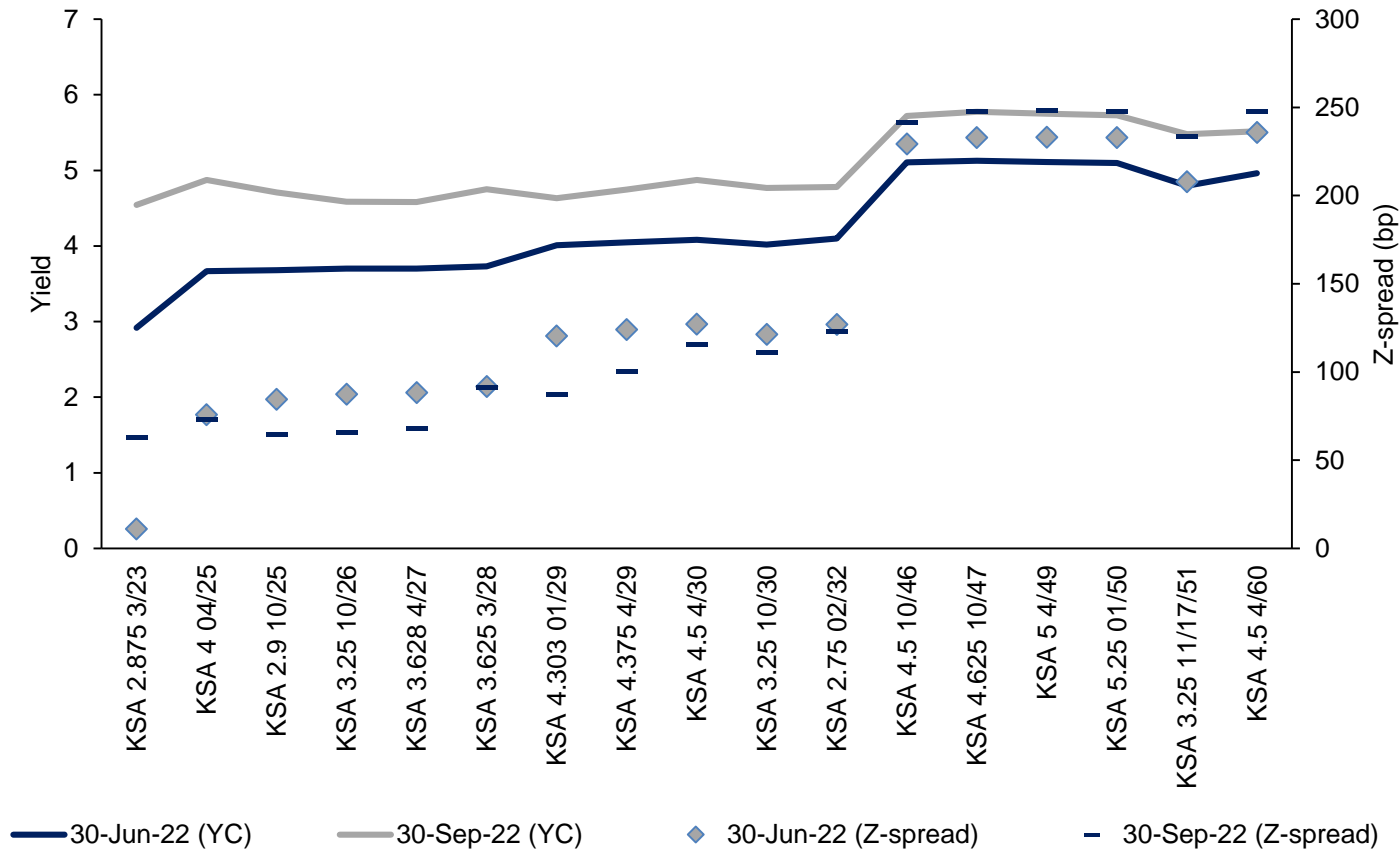
# Dubai z-spread and yield curve (3Q 22 change)



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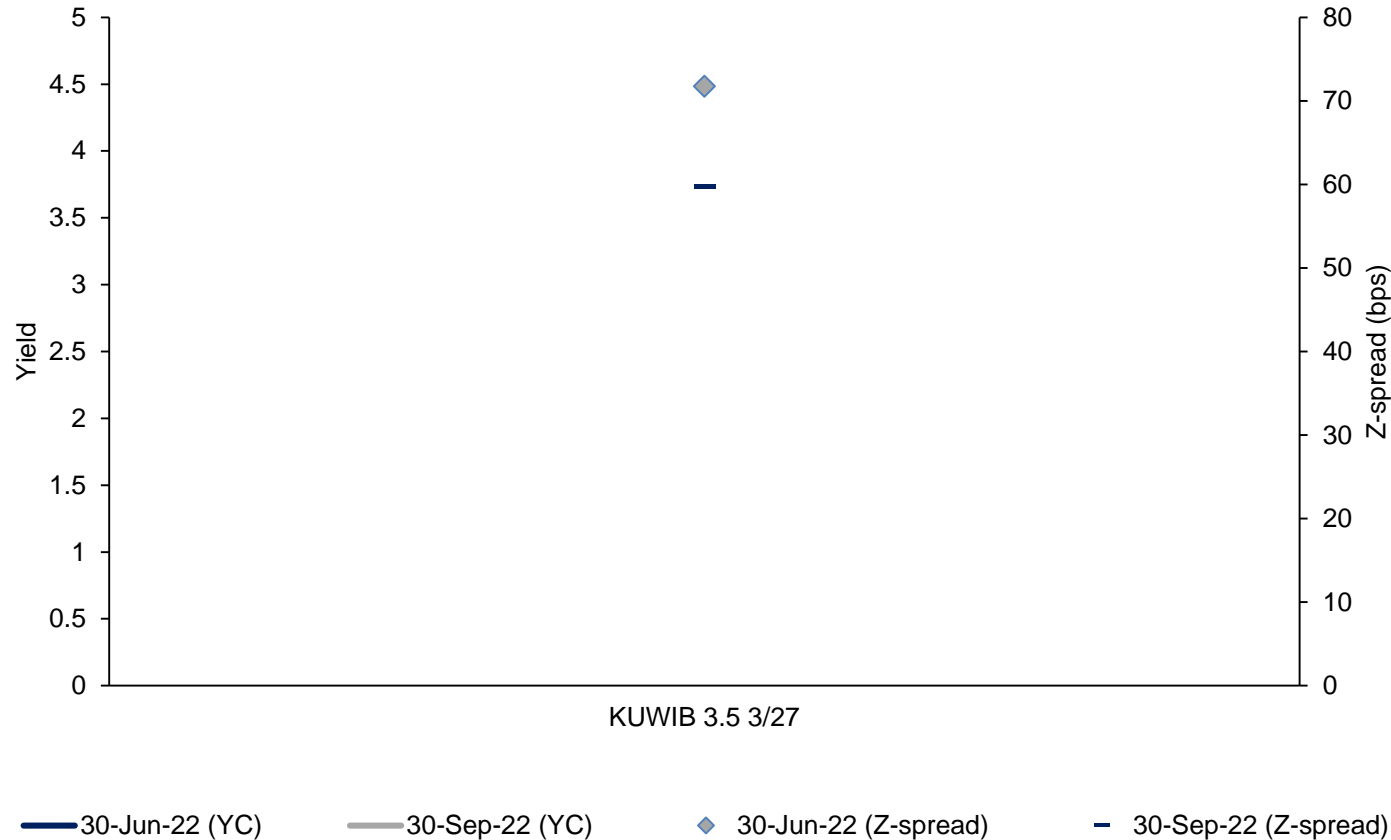
# Saudi Arabia z-spread and yield curve (3Q 22 change)



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Source: Bloomberg, ADCB

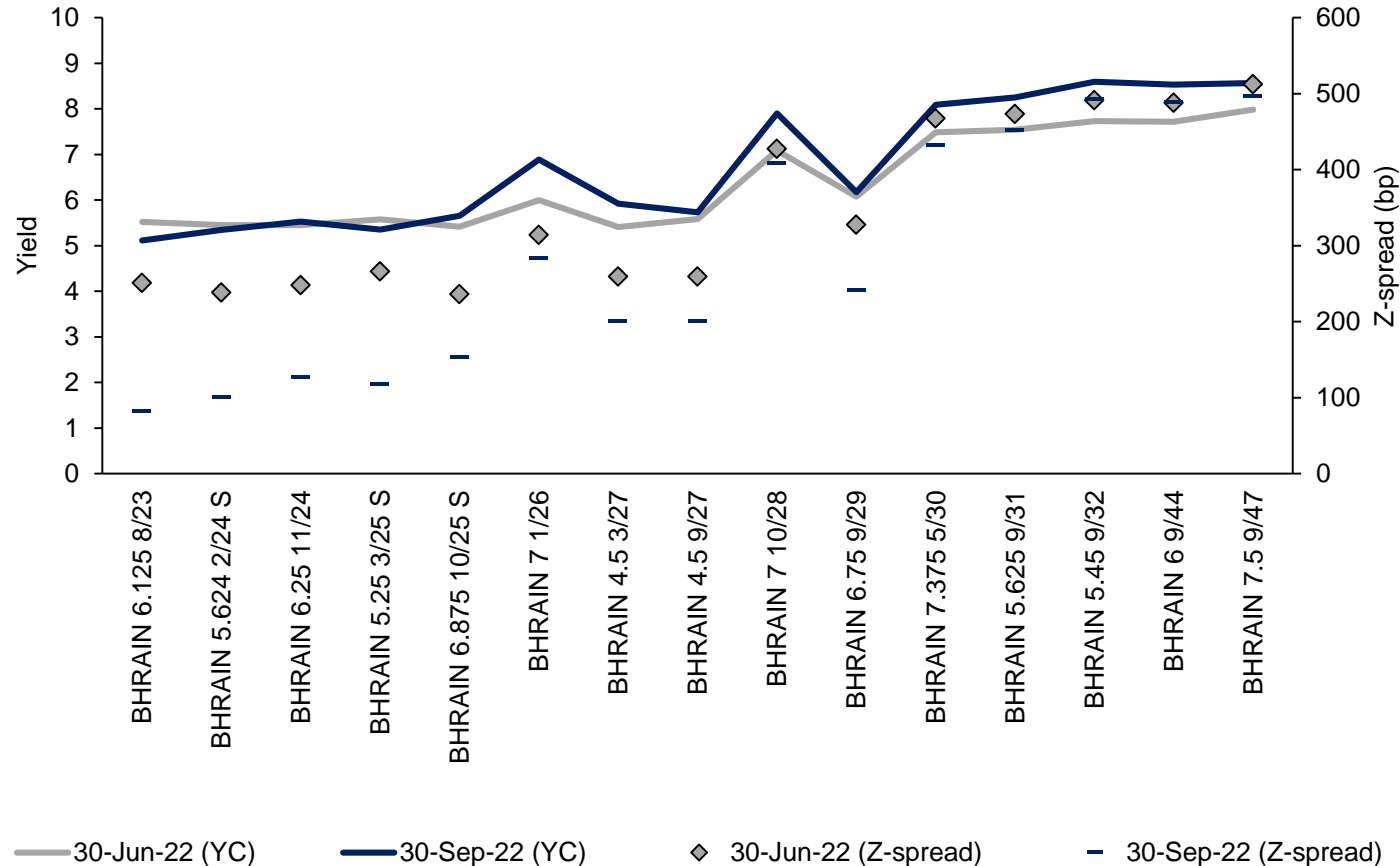
# Kuwait z-spread and yield curve (3Q 22 change)



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Source: Bloomberg, ADCB

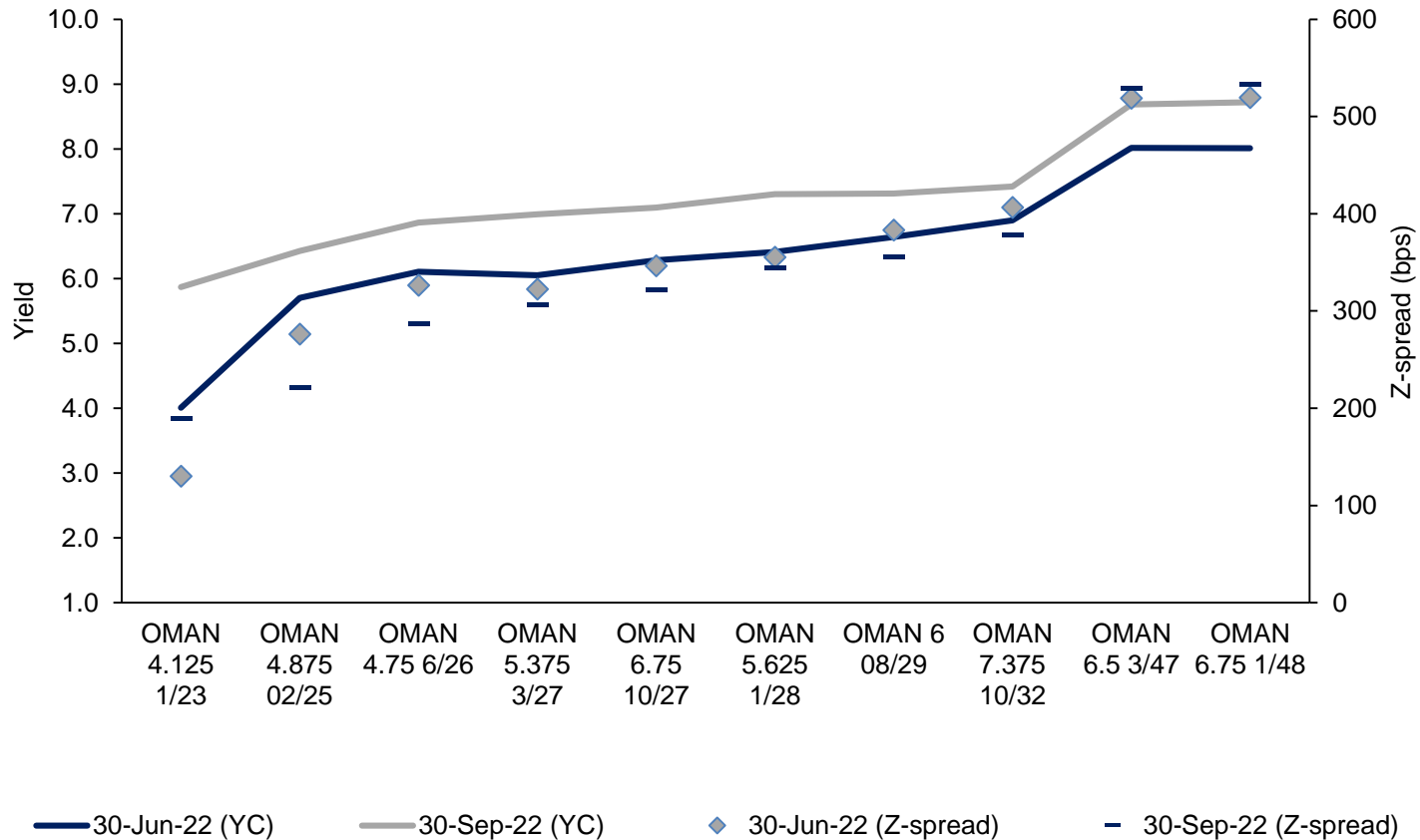
# Bahrain z-spread and yield curve (3Q 22 change)



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Note: S refers to Sukuk Source: Bloomberg, ADCB

# Oman z-spread and yield curve (3Q 22 change)



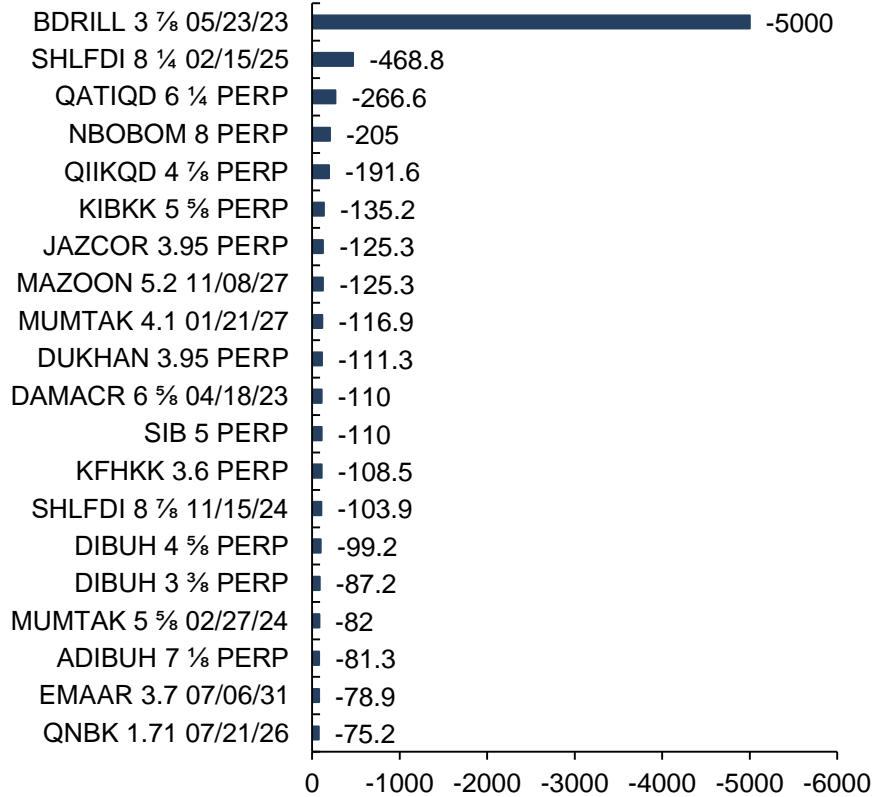
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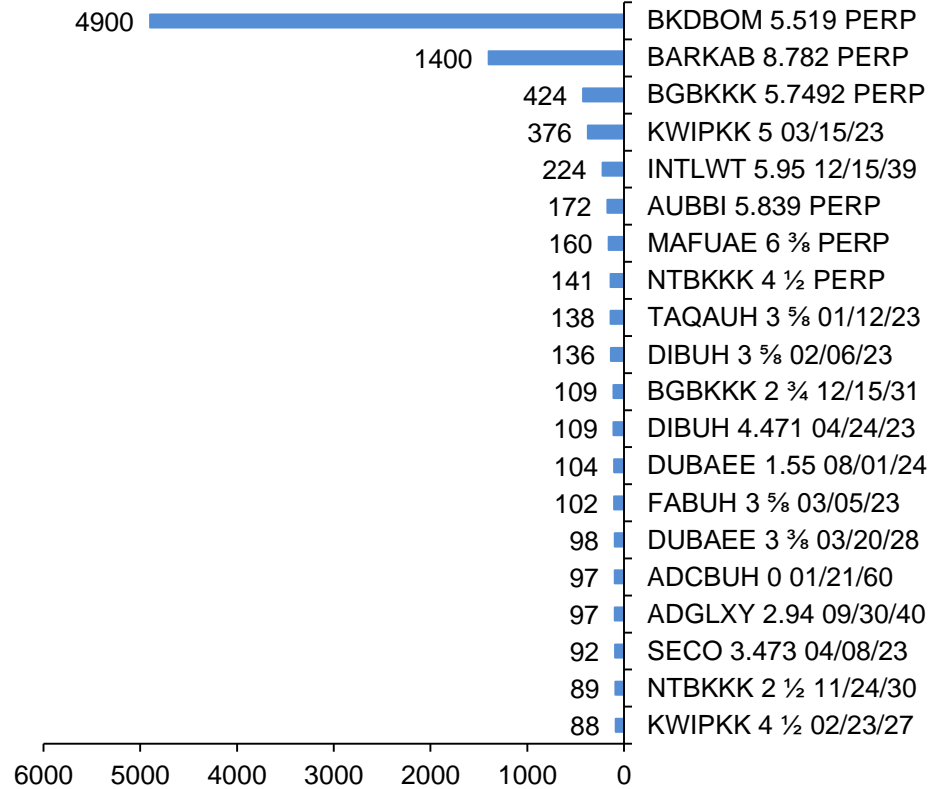


# GCC corporate top and bottom performers (spread performance in Jan-Sep 22)

## Top performers..



## ..Bottom performers



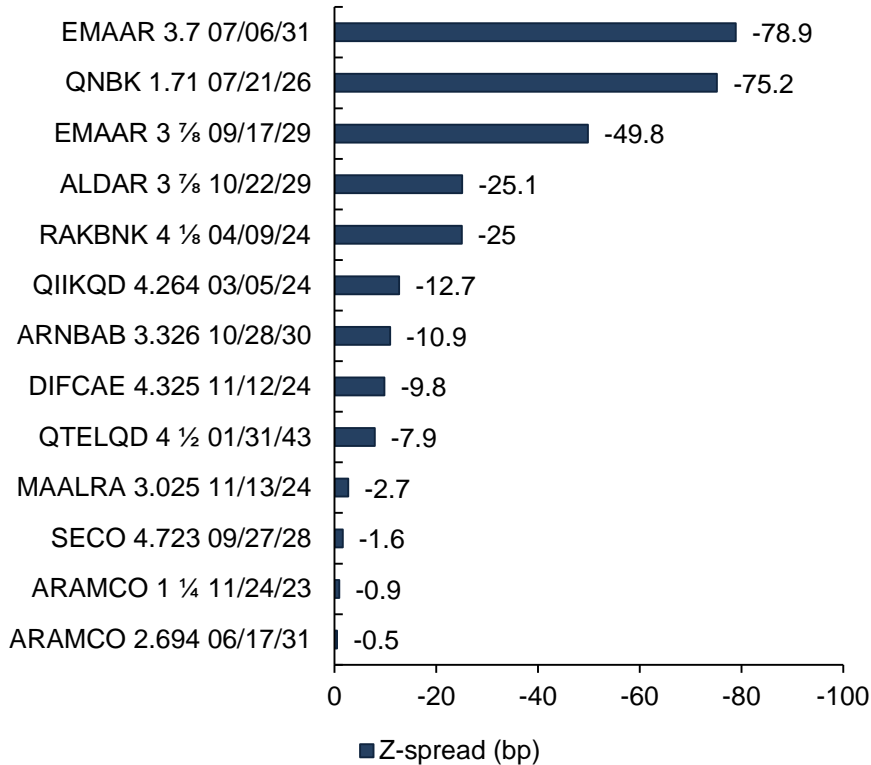
The **z-spread** is our preferred measure for analyzing the relative value of a bond. The z-spread is the additional yield one gets after having calculated an equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium.

Note : change: 31<sup>st</sup> December 2021 to 30<sup>th</sup> September 2022, All bonds are dollar denominated and maturing in 2023 or above, "PERP" refers to Perpetual, "Float" refers to floating rate bond

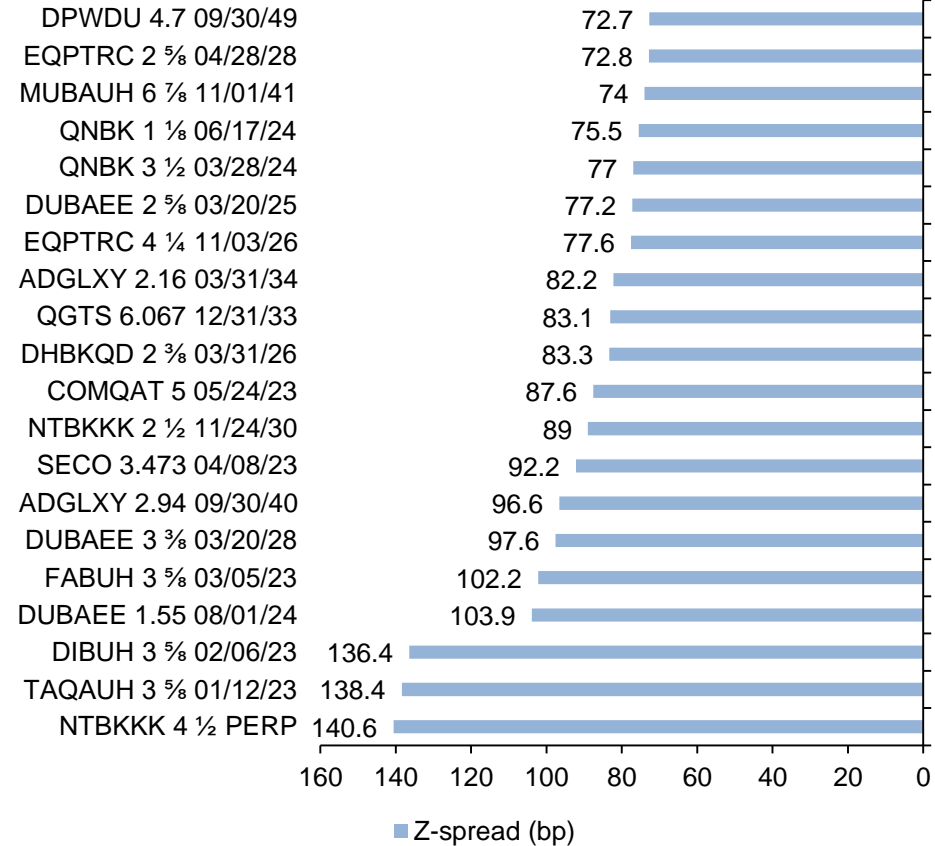
Source: Bloomberg, ADCB

# GCC Investment Grade corporates (BBB- rated and above) spread performance in Jan-Sep 22

Top performers..



..Bottom performers



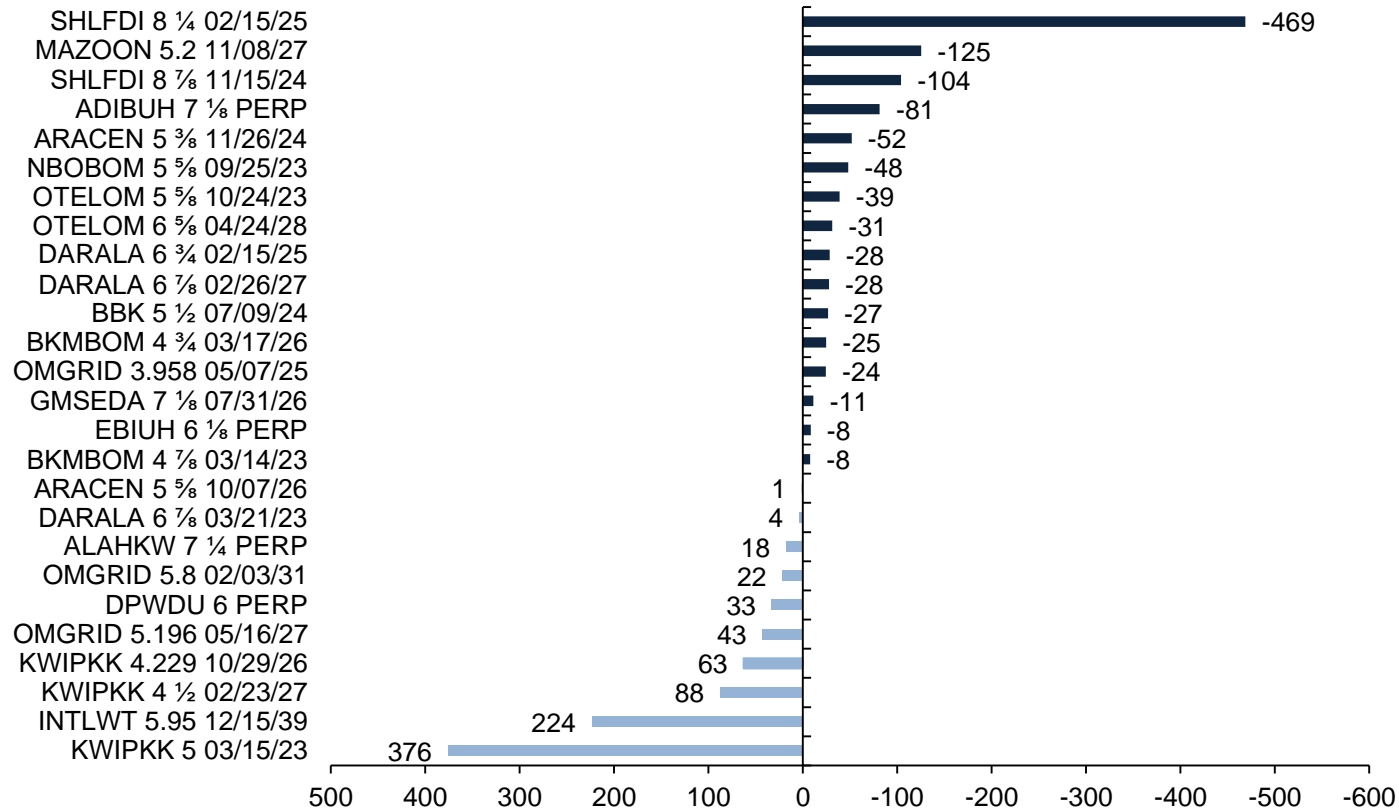
The **z-spread** is our preferred measure for analyzing the relative value of a bond. It is calculated by comparing the equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium.

Note : change: 31<sup>st</sup> December 2021 to 30<sup>th</sup> September 2022,, All bonds are dollar denominated and maturing in 2023 or above, "PERP" refers to Perpetual, "Float" refers to floating rate bond

Source: Bloomberg, ADCB

# GCC High Yield corporates (rated BB+ and below only) spread performance in Jan-Sep 22

Top and bottom performers



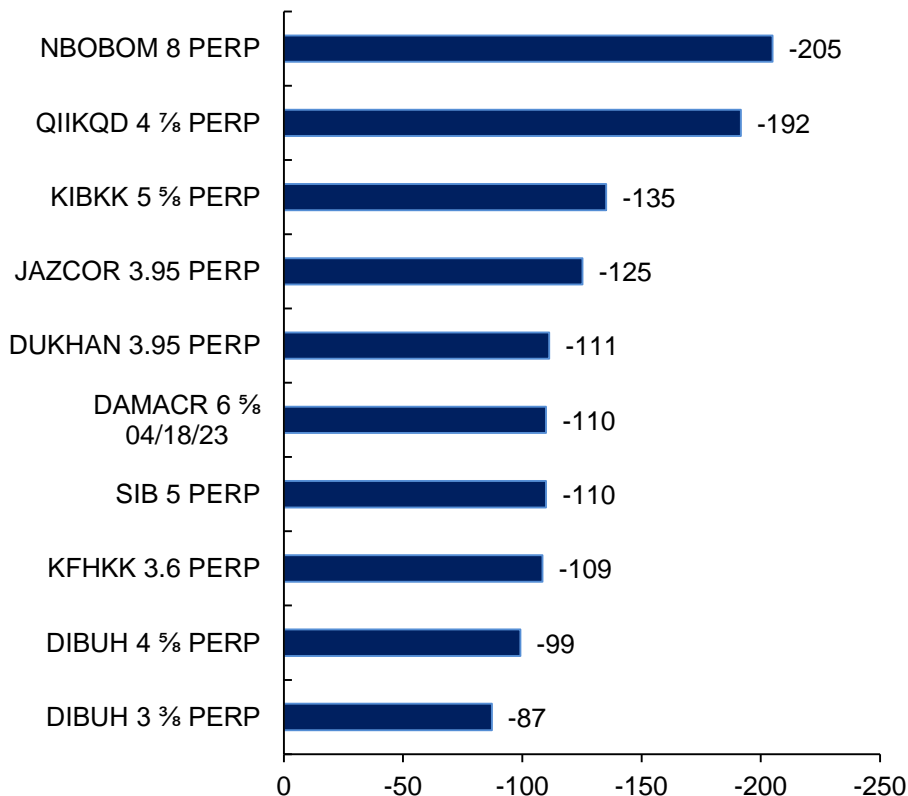
The **z-spread** is our preferred measure for analyzing the relative value of a bond. The z-spread is the additional yield one gets after having calculated an equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium.

Note : change: 31<sup>st</sup> December 2021 to 30<sup>th</sup> September 2022, All bonds are dollar denominated and maturing in 2023 or above, "PERP" refers to Perpetual, "Float" refers to floating rate bond

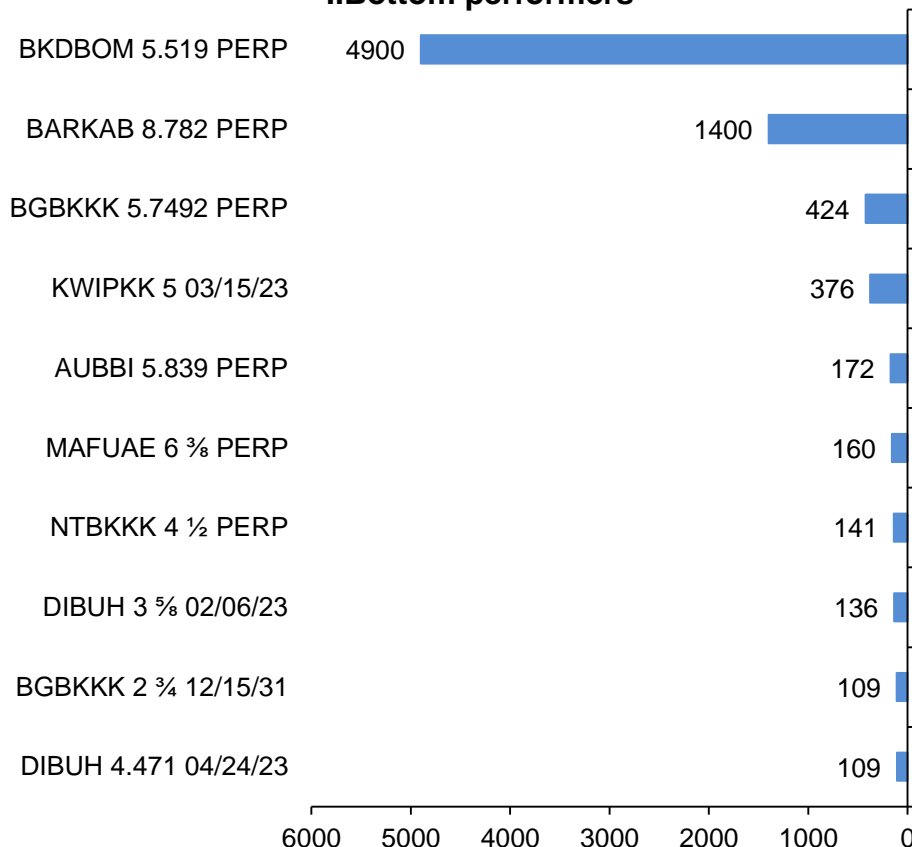
Source: Bloomberg, ADCB

# GCC financials (spread performance in Jan-Sep 22)

## Top performers..



## ..Bottom performers



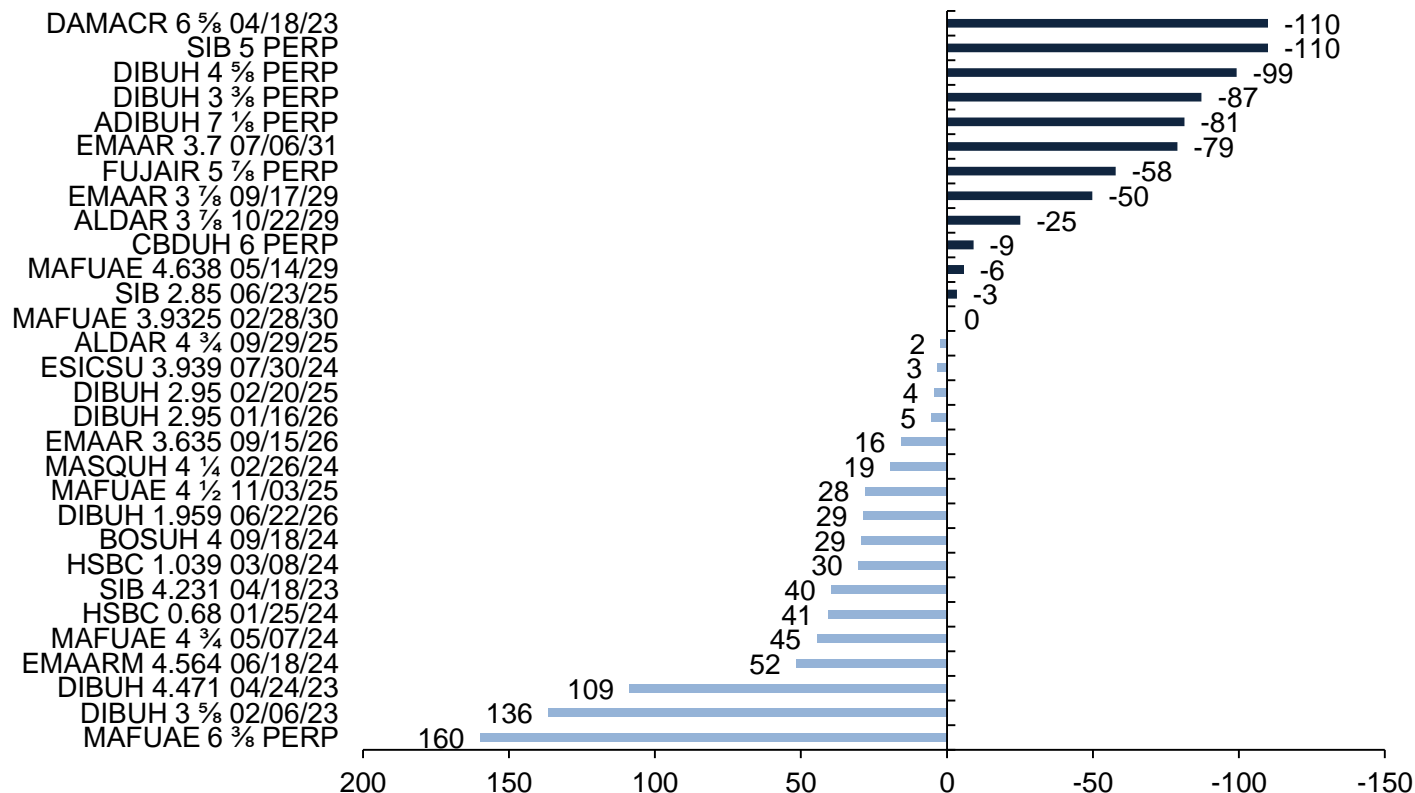
The **z-spread** is our preferred measure for analyzing the relative value of a bond. It is the equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium.

Note : change: 31<sup>st</sup> December 2021 to 30<sup>th</sup> September 2022,, All bonds are dollar denominated and maturing in 2023 or above, "PERP" refers to Perpetual, "Float" refers to floating rate bond

Source: Bloomberg, ADCB

# UAE financials (spread performance in Jan-Sep 22)

## Top and Bottom performers



The **z-spread** is our preferred measure for analyzing the relative value of a bond. The z-spread is the additional yield one gets after having calculated an equilibrium price based on the effective cash flows and comparing that price with the market price. A higher spread implies that the bond is trading at a discount and negative spread implies that the bond is trading at a premium.

Note : change: 31<sup>st</sup> December 2021 to 30<sup>th</sup> September 2022, All bonds are dollar denominated and maturing in 2023 or above, "PERP" refers to Perpetual, "Float" refers to floating rate bond

Source: Bloomberg, ADCB

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