

GCC Fixed Income Weekly Review

Global benchmark bond index posted marginal gains over the week (ending 4th April 2023). US Treasury yields fell over the week, as jobs data showed signs of cooling. Euro zone government bond yields also declined but less than UST yields. In credit, corporate bonds ended the week on a positive note. Global HY index and EM USD bonds recorded positive gains.

Appetite for GCC bonds improved over the week. All GCC bonds posted positive returns. Oman was the best performer. 5yr CDS sovereign spreads tightened in all GCC countries barring Bahrain. 10yr bond yields declined across all the GCC markets, the most in Oman and Bahrain.

The Purchasing Managers' Index (PMI) for the UAE increased from 54.3 in February to 55.9 in March, which was the highest reading since November. **The Central Bank of the UAE has predicted that the rate of inflation in the country will decrease to 3.2% yoy in 2023** due to lower price increases across all categories, specifically transport and food and beverages. Elsewhere; **Saudi Arabia Purchasing Managers' Index (PMI) was 58.7 in March, down from February's near eight-year record of 59.8.** Fitch Ratings Agency, has **upgraded Saudi Arabia's sovereign debt rating to A+ due to strong fiscal buffers**, citing the country's efforts to diversify its economy away from reliance on oil sales and large reserves.

In issuances, **Al Rajhi Bank of Saudi Arabia issued USD1bn worth of sustainable Islamic bonds with a maturity of five years.** The spread on the sukuk, or Islamic bonds, was set at 110bp over U.S. Treasuries, which was lower than the initial price guidance of around 150bp over U.S. Treasuries, after demand exceeded USD3.75bn. **Saudi Electricity Company (SEC) recently issued USD2bn of Islamic bonds or sukuk, denominated in US dollars.** The sale included a 10-year green or sustainable sukuk worth USD1.2bn which was priced at 4.632%, and a 30-year conventional sukuk worth USD800mn which was priced at 5.684%.

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Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aa2	Baa2	A1	B2u	Ba3	Aa3	B3
Fitch	A+	AA	-	AA-	B+	BB	AA-	B+

Note: *Dewa rating used as proxy

GCC Fixed Income Weekly Snapshot

				Interest rates			
BBG Barclays	Latest	-1w %	YTD %	3M interbank	Latest	-1w (bp)	YTD (bp)
EM USD Agg TR	1103.0	1.3	2.7	Saudi	5.7	6.1	37.9
EM LatAm TR	944.8	1.8	2.6	UAE	4.9	-3.9	63.5
EM EMEA TR	329.8	0.9	2.1	Kuwait	4.3	0.0	25.0
EM Asia TR	597.2	1.3	3.4	Bahrain	6.3	0.0	19.6
Bahrain TR	180.8	0.8	2.5	Oman	5.3	27.8	67.0
Oman TR	140.0	1.0	3.2	Qatar	5.6	-10.0	35.0
Kuwait TR	142.7	0.4	2.0	US	5.2	6	46.9
Qatar TR	132.4	0.7	2.7	12M interbank	Latest	-1w (bp)	YTD (bp)
Saudi Arabia TR	135.7	0.6	2.2	Saudi	5.7	12.1	-21.6
UAE TR	134.8	0.6	2.2	UAE	5.1	14.9	-3.7
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	Kuwait	4.7	0.0	12.5
Saudi Arabia	64.9	-1.8	1.5	Bahrain	6.5	0.8	-10.3
Abu Dhabi	44.1	-2.7	-3.6	Oman	5.5	17.9	58.5
Dubai	85.5	-5.0	-8.5	Qatar	6.0	5.0	20.0
Kuwait	55.6	-11.3	-5.0	10Y yield	Latest	-1w (bp)	YTD (bp)
Bahrain	257.9	0.8	-2.1	Saudi Arabia^^	4.6	-16.6	-19.7
Oman	166.4	-6.9	-24.6	Abu Dhabi	3.9	-18.1	-31.4
Qatar	45.0	-2.0	-4.9	Dubai	4.4	-4.7	-7.0
Egypt	1324.4	-78.3	420.1	Kuwait	3.8	-9.5	-0.3
Turkey	538.5	7.6	20.6	Bahrain	6.6	-19.9	-26.8
US	47.9	-0.1	20.8	Oman	5.7	-27.4	-38.3
Germany	16.8	-0.3	-3.8	Qatar	3.9	-11.1	-26.0

Note: data from 29th March 2023 to 4th April 2023, Source: Moody's rating, Fitch ratings, Bloomberg, ADCB Asset Management

^^ YTD data from 13th January 2023

Fitch upgraded Saudi Arabia due to strong fiscal buffers

Fitch Ratings Agency, has upgraded Saudi Arabia's sovereign debt rating to A+, citing the country's efforts to diversify its economy away from reliance on oil sales and large reserves. The agency noted the kingdom's strong fiscal and external balance sheets and assumes a continued commitment to gradual progress with fiscal, economic, and governance reforms. This upgrade follows Saudi Arabia's recent move to cut oil production, which caused crude prices to rise more than 6% to over USD85 a barrel. Additionally, Saudi Arabia recorded its first budget surplus in nearly a decade in 2022, as a result of high oil prices and rapid growth in non-oil sectors.

(Source: Bloomberg)

Saudi non-oil private sector activity slowed in March

The non-oil private sector economy in Saudi Arabia continued to grow in March, although at a slightly slower pace than the previous month's record growth. The Purchasing Managers' Index (PMI) for Saudi Arabia was 58.7 in March, down from February's near eight-year record of 59.8. Confidence remained high despite the easing of activity.

(Source: Zawya)

UAE non-oil activity rebounds in March; new orders index showed an increase in jobs growth-PMI

Non-oil business activity in the UAE experienced the quickest growth in five months in March, due to an increase in new orders and the highest job growth rate in nearly seven years. The Purchasing Managers' Index (PMI) for the UAE increased from 54.3 in February to 55.9 in March, which was the highest reading since November. Although the output sub-index remained stable, the new orders sub-index increased from 55.4 to 56.2 in February, backed by robust demand and a rise in tourism. As companies expanded their workforce to manage orders, the employment sub-index reached 52.6 in March, which was the most rapid growth rate since July 2016.

(Source: Reuters)

UAE's inflation will drop this year due to softer price increases

The Central Bank of the UAE has predicted that the rate of inflation in the country will slow to 3.2% due to lower price increases across all categories, specifically transport and food and beverages. The central bank expects inflation to slow further to 2.8% in 2024, in line with global trends. The latest data from the central bank's CPI inflation data shows that transportation, food and beverages, recreation, and culture costs decreased in the fourth quarter compared to the previous quarter.

(Source: Zawya)

Saudi Electricity Company raised sukuk worth USD2bn

Saudi Electricity Company (SEC) issued USD2bn in Islamic bonds or sukuk, denominated in US dollars. The sukuk was divided into two parts - a 10-year green or sustainable sukuk worth USD1.2bn and a 30-year conventional sukuk worth USD800mn. The green sukuk was priced at 4.632%, while the conventional sukuk was offered at 5.684%.

(Source: Reuters)

Saudi Arabia's Al Rajhi Bank issued sukuk worth USD1bn

Al Rajhi Bank of Saudi Arabia issued USD1bn worth of sustainable Islamic bonds with a maturity of five years. The spread on the sukuk, or Islamic bonds, was set at 110bp over U.S. Treasuries, which was lower than the initial price guidance of around 150bp over U.S. Treasuries, after demand exceeded USD3.75bn.

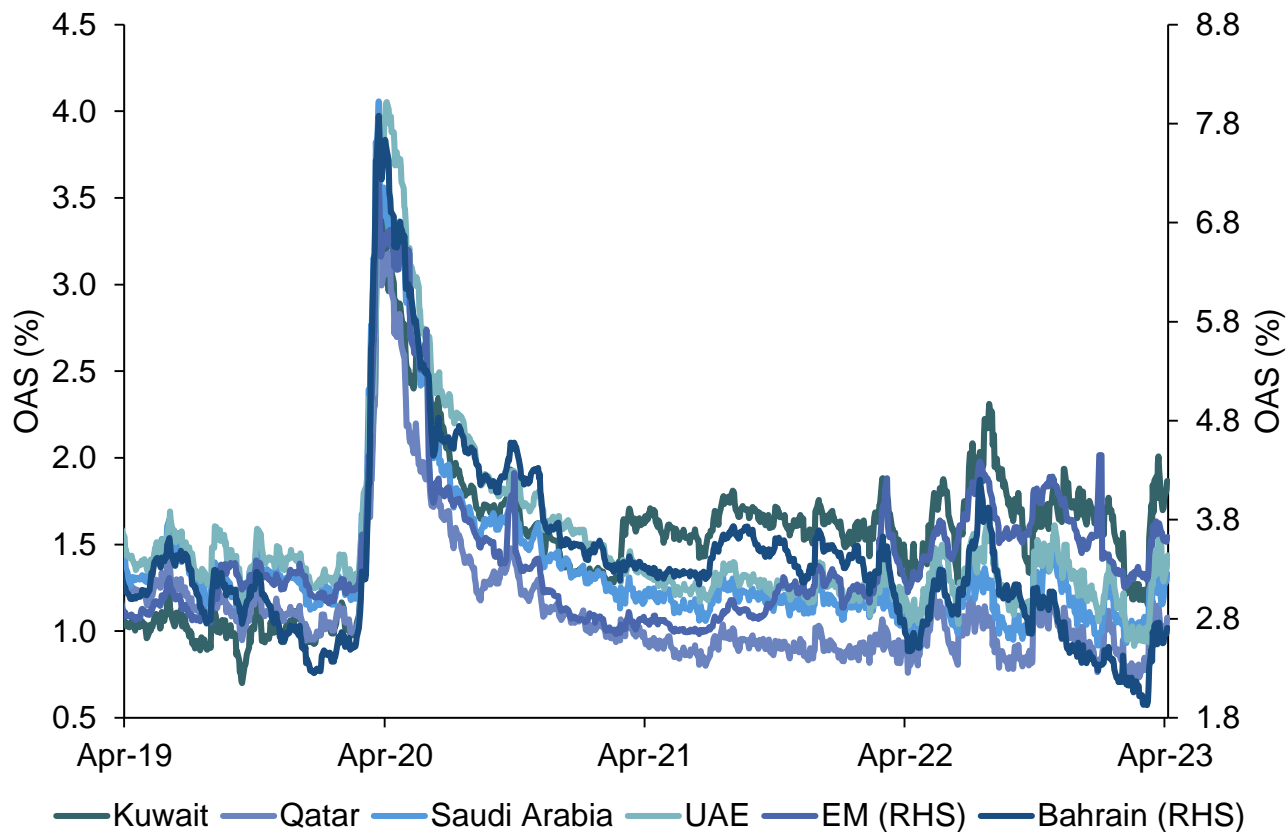
(Source: Reuters)

Issuer	BBG	Sector	Country	Issue Amt*	Cpn	Maturity	Maturity Type	Currency	Issue Date	Rtg [^]	YTM (mid)	YTC (mid)
TMS Issuer Sarl	GASBCM	Industrial	SA	1500	5.78	8/23/2032	SINKABLE	USD	2/23/2023	A	5.57	-
Greensaif Pipelines Bidco Sarl	GASBCM	Industrial	SA	1500	6.51	2/23/2042	SINKABLE	USD	2/23/2023	A	6.37	-
Greensaif Pipelines Bidco Sarl	GASBCM	Industrial	SA	1500	6.13	2/23/2038	SINKABLE	USD	2/23/2023	A	6.19	-
Finance Department Government of Sharjah	SHJGOV	Sovereign	AE	1000	6.5	11/23/2032	AT MATURITY	USD	2/23/2023	BB+	6.34	-
BOS Funding Ltd	BOSUH	Financial Institutions	AE	500	7	3/14/2028	AT MATURITY	USD	3/14/2023	BBB+	7.45	-

*Amount Issued in USD/AEDmillion, Bloomberg sector classification has been used, [^]Issuer rating used where applicable, Fitch rating or equivalent used Source: Fitch Ratings, Moody's ratings, Bloomberg, ADCB Asset Management

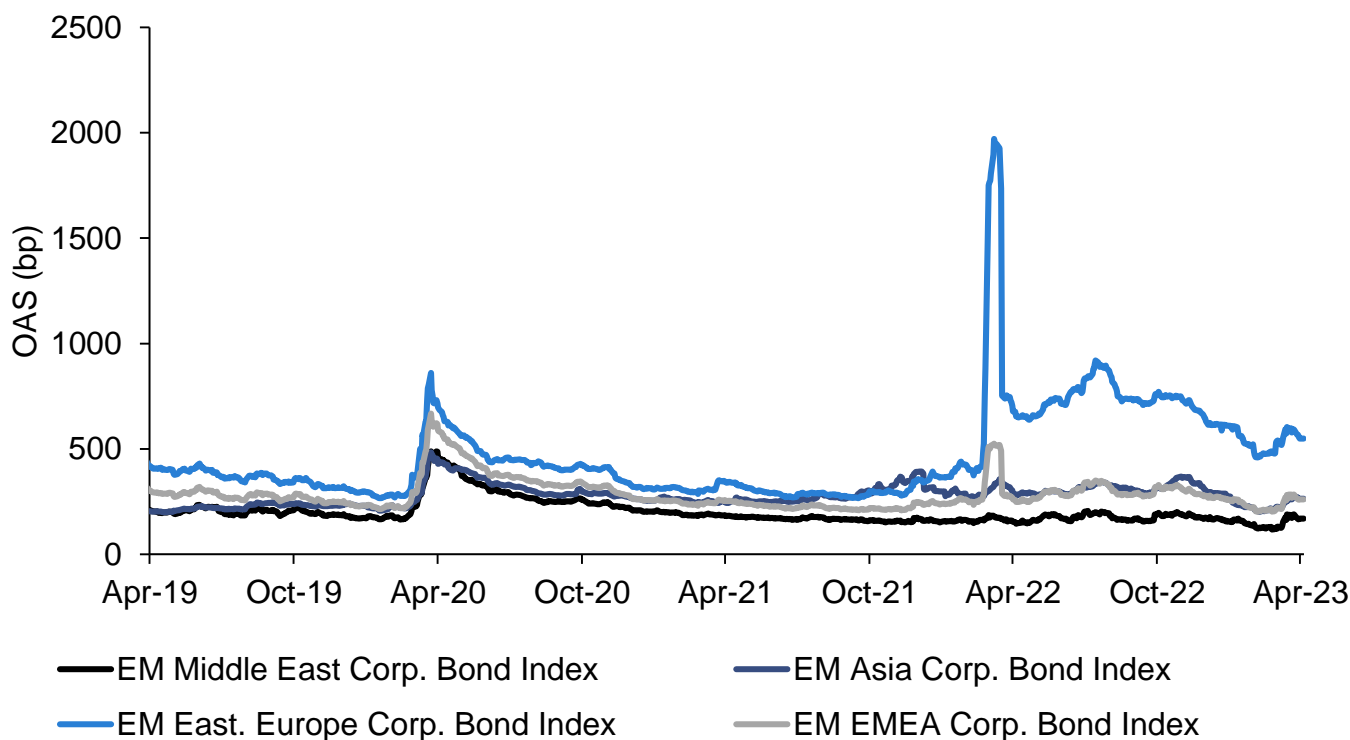
Appendix

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



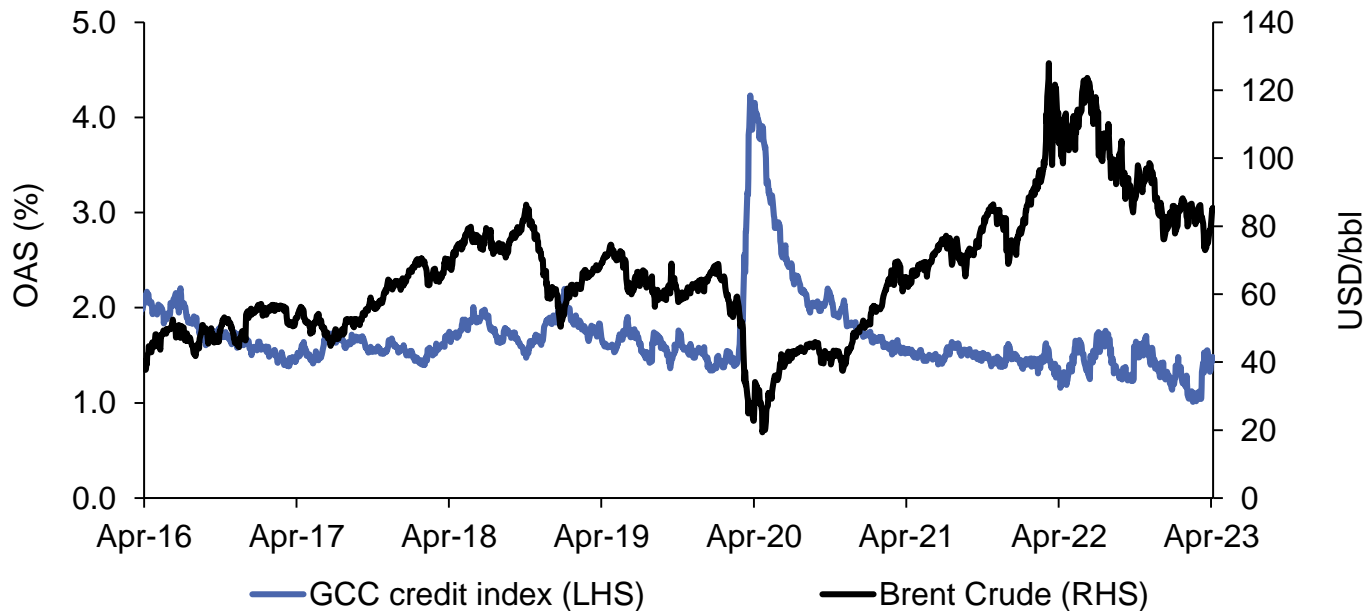
Source: Bloomberg Sovereign Bond Indices, ADCB Asset Management

Emerging markets versus Middle East spread



Source: Credit Suisse Corporate Bond Indices, ADCB Asset Management

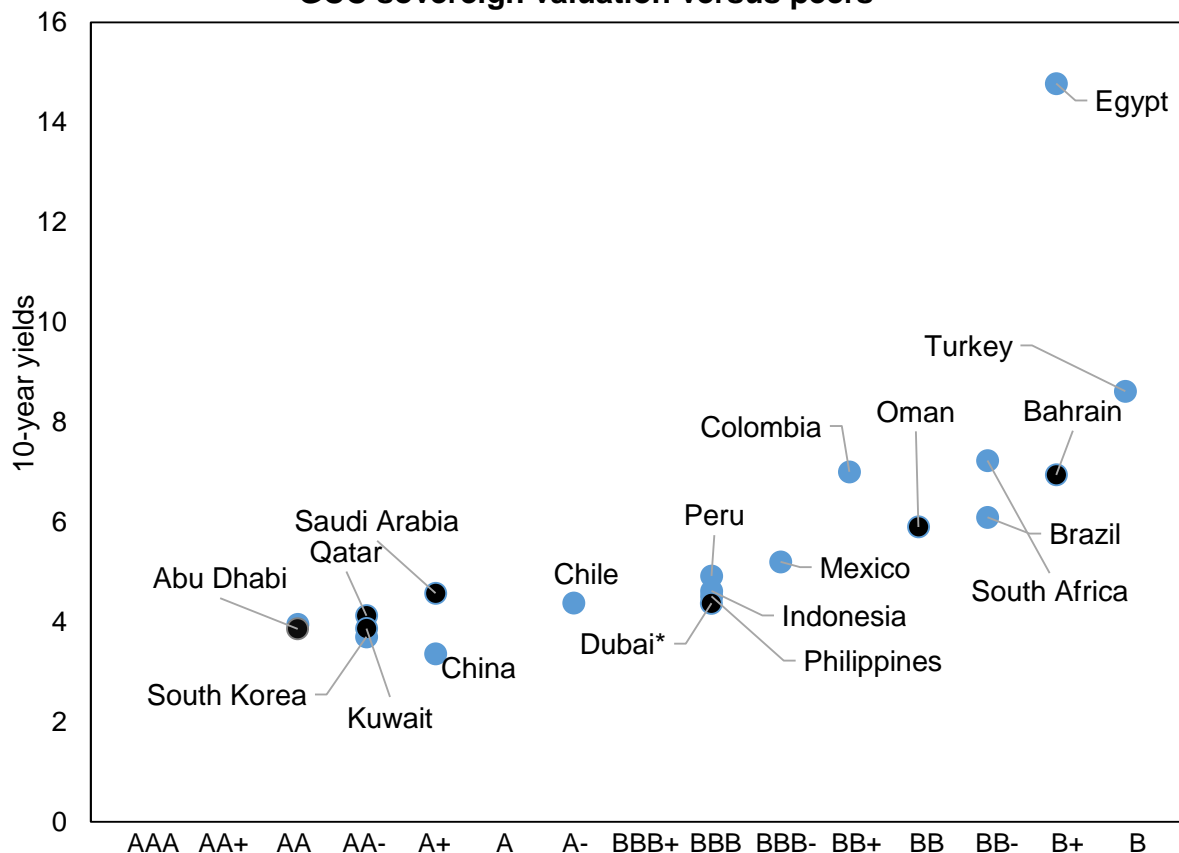
GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB Asset Management

10yr yield versus Credit ratings (EM vs GCC)

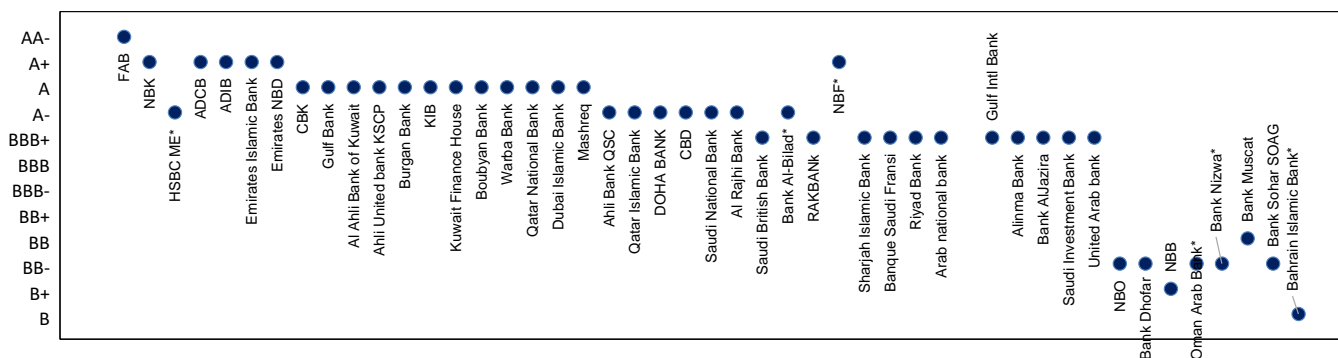
GCC sovereign valuation versus peers



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

GCC Financials Credit Rating

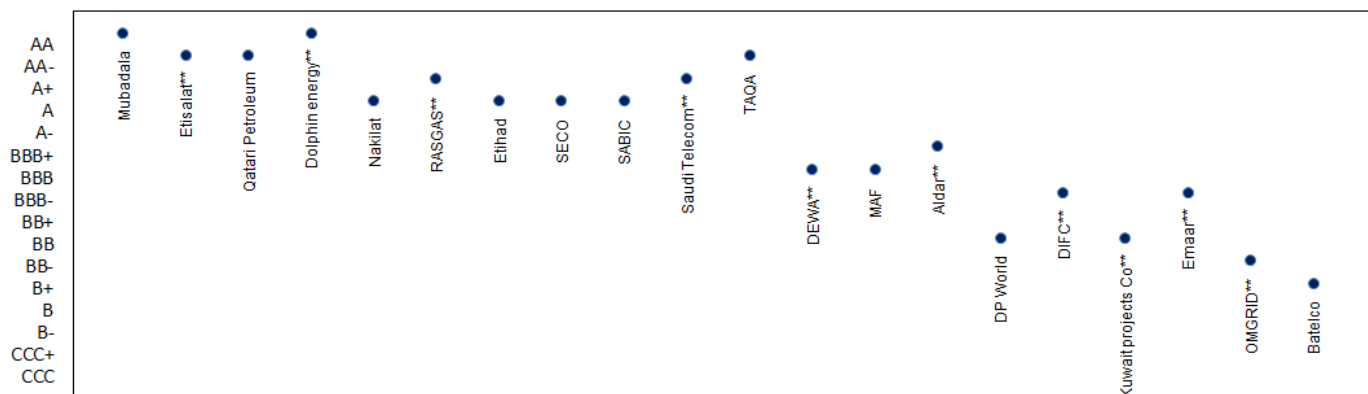
GCC Financials



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

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