

## GCC Fixed Income Weekly Review

Global benchmark bond index gained over the week (ending 2nd August 2022), helped by the rally in DM sovereign bonds. The 10yr UST yields declined by c8bp on the back of slowdown fears, increasing China-US tensions and pricing in the possibility of less hawkish Fed stance. Euro zone government bond yields fell more than UST peers due to increased safe-haven demand. In credit, corporate bonds performed well, led by Global HY bonds. Similarly, EM USD bonds had a positive week, recording marginal gains over the week.

Appetite for GCC bonds improved over the week. Oman and Bahrain outperformed the most while UAE was the only bond market in the GCC recording negative returns. 5yr CDS spreads mostly tightened across all GCC countries with Bahrain leading the tightening. Dubai and Kuwait CDS spreads widened. In the USD bond market, the 10yr bond yields declined across all GCC countries, the most in Oman and Bahrain.

**The non-oil private sector in the UAE grew at its second-fastest pace this year** in July, driven by strong demand and higher sales. **UAE PMI rose from 54.8 in June to 55.4 in July.** On the other hand, **Saudi Arabia PMI fell from 57.0 in June to 56.3 in July.** Meanwhile, flash estimates showed that **Saudi Arabia's GDP rose by 11.8% yoy in Q2 21 with growth largely driven by 23.1% yoy increase in oil activities, while non-oil activities expanded by 5.4% yoy.** The IMF expects Saudi Arabia's economy to grow by 7.6% in 2022. **Most GCC central banks raised rates by 75bp in response to the Fed's latest rate hike.** The UAE, Saudi Arabia, Bahrain and Qatar matched the Fed rate hike of 75bp. Kuwait was the exception, raising rates by less than 75bp.

The UAE federal government conducted the third auction of the Treasury bonds programme, part of the AED9bn T-bond issuance programme for 2022. A total of AED1.5bn was allocated in both tranches, with 750mn for the 2-year tranche and 750mn for the 3-year tranche. The auction saw strong demand, receiving bids over **AED7.6bn (USD2.07bn) and oversubscribed by over 5.1x.**

### Prerana Seth

Fixed Income Strategist  
Tel: +971 (0)2 696 2878  
[prerana.seth@adcb.com](mailto:prerana.seth@adcb.com)

### Mohammed Al Hemeiri

Analyst  
Tel: +971 (0)2 696 2236  
[mohammed.alhemeiri@adcb.com](mailto:mohammed.alhemeiri@adcb.com)

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Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aaa2	Baa2	A1	Ba2	Ba3	Aa3	B3
Fitch	A	AA	-	AA	B+	BB-	AA-	B+

## GCC Fixed Income Weekly Snapshot

				Interest rates			
BBG Barclays	Latest	-1w %	YTD %	3M interbank	Latest	-1w (bp)	YTD (bp)
EM USD Agg TR	1,073.35	1.67	-15.27	Saudi	3.06	12.54	215.75
EM LatAm TR	915.37	2.44	-13.67	UAE	2.68	-3.17	231.98
EM EMEA TR	321.64	2.19	-19.94	Kuwait	2.38	31.25	87.50
EM Asia TR	581.69	0.55	-11.65	Bahrain	4.13	11.33	260.83
Bahrain TR	171.31	2.99	-4.32	Oman	2.83	9.25	69.80
Oman TR	133.23	3.75	-3.07	Qatar	2.45	-	132.50
Kuwait TR	141.25	0.50	-6.08	US	2.80	-0.37	258.78
Qatar TR	135.19	1.14	-8.92	12M interbank	Latest	-1w (bp)	YTD (bp)
Saudi Arabia TR	138.58	1.14	-9.19	Saudi	3.90	15.85	284.23
UAE TR	135.33	-1.08	-8.47	UAE	3.42	7.13	268.11
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	Kuwait	2.94	31.25	93.75
Saudi Arabia	64.99	-8.40	-8.40	Bahrain	5.08	0.83	330.83
Abu Dhabi	63.68	-7.00	-7.00	Oman	3.34	8.75	32.35
Dubai	145.29	7.50	7.50	Qatar	2.75	-	142.50
Kuwait	79.86	0.40	0.40	10Y yield	Latest	-1w (bp)	YTD (bp)
Bahrain	338.53	-22.70	-22.70	Saudi Arabia	3.56	-12.60	107.70
Oman	317.06	-16.00	-16.00	Abu Dhabi	3.19	-11.00	117.90
Qatar	63.88	-6.60	-6.60	Dubai	4.07	-11.80	153.00
Egypt	1424.36	-167.50	-167.50	Kuwait	3.19	-5.10	154.70
Turkey	792.05	-99.30	-99.30	Bahrain	7.39	-58.60	155.20
US	23.00	-0.70	-0.70	Oman	5.95	-71.30	98.40
Germany	17.21	-0.20	-0.20	Qatar	3.27	-22.10	116.40

Note: \*Dewa rating used as proxy, data from 27<sup>th</sup> July 2022 to 3<sup>rd</sup> August 2022, Source: Moody's rating, Fitch ratings, Bloomberg, ADCB Asset Management

## UAE federal government conducted third auction of Treasury bonds

The UAE federal government conducted the third auction of the Treasury bonds programme, part of the AED9bn T-bond issuance programme for 2022. The UAE federal government raised AED1.5bn in two tranches, AED750mn in the 2-year tranche and AED750mn in the 3-year tranche. The 2-year tranche was priced at a spread of 16bp over USTs and the 3-year tranche was sold at a spread of 15bp over USTs. The auction received strong demand with bids receiving worth AED7.6bn (USD2.07bn) and oversubscribed by 5.1x.

(Source: WAM)

## The UAE's non-oil private sector expanded in July- PMI

The non-oil private sector in the UAE grew at its second-fastest pace this year in July on the back of strong demand and higher sales. UAE's PMI rose from 54.8 in June to 55.4 in July. The output sub-index rose from 60.7 in June to 62.5 in July, above the series average of 57.5. The employment sub-index fell from 51.2 in June to 51.0 in July.

(Source: Zawya)

## The non-oil private sector in Saudi Arabia grew slower in July but remained solid- PMI

Saudi Arabia's PMI fell from 57.0 in June to 56.3 in July. The output sub-index fell from 61.8 in June to 59.9 in July. The employment sub-index increased from 50.7 in June to 51.3 to July, its fastest expansion since September 2019, but below the series average of 51.8.

(Source: Zawya)

## The Saudi GDP grew by 11.8% yoy in Q2 21

Saudi Arabia's GDP rose by 11.8% yoy in Q2 22 with growth largely driven by 23.1% yoy increase in oil activities, while non-oil activities expanded by 5.4% yoy. The IMF expects Saudi Arabia's economy to grow by 7.6% in 2022. In addition, the IMF projected that the current account surplus would rise to 17.4% of GDP, while inflation is expected to rise by 2.8%. The IMF stated that the kingdom's economy is experiencing a strong improvement due to high oil prices and reforms pursued by the government in the framework of Vision 2030, with limited impact from tightening global conditions thanks to high levels of banking capitalization.

(Source: Reuters and Zawya)

## GCC central banks raised rates by 75bp in response to the Fed move against inflation

Most of the GCC central banks raised rates in response to the latest fed rate hike of 75bp. The UAE, Saudi Arabia, Bahrain and Qatar matched the Fed rate hike of 75bp. Kuwait was the exception, raising rates by less than 75bp. Kuwait's central bank increased the discount rate from 2.25% to 2.50%. Qatar raised its deposit and repurchase rates by 75bp to 3% and 3.25% respectively while raised its lending rate by 50bp to 3.75%. The UAE central bank increased the base rate of the Overnight Deposit Facility (ODF) by 75bp. Saudi Arabia increased its repo rate and reverse repo rate by 75bp to 3% and 2.5% respectively.

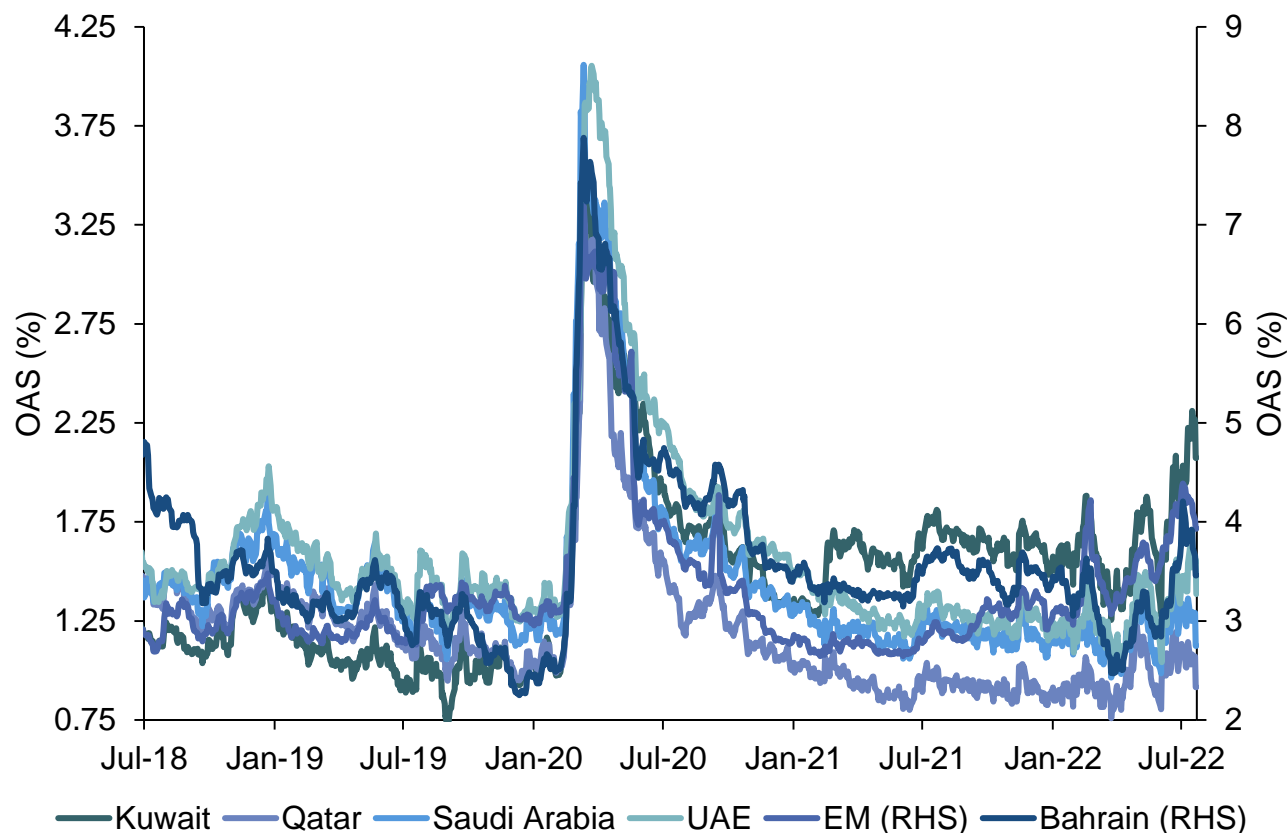
(Source: Bloomberg)

Issuer	BBG	Sector	Co un try	Issue Amt**	Cpn	Maturity	Maturity Type	Curre ncy	Issue Date	Rtg ^	YTM (mid)	YTC (mid)
First Abu Dhabi Bank	FABUH	Agency	AE	310	3.345	1/14/2027	AT MATURITY	USD	14/7/2022	AA-	3.79	-
Mashreqbank PSC	MASQUH	Financial Institutions	AE	300	8.5	-	PERP/CAL L	USD	7/7/2022	A	7.60	-
QIC Cayman Ltd	QATIQD	Financial Institutions	QA	400	6.75	-	PERP/CAL L	USD	7/7/2022	-	6.53	-
UAE INTERNATIONAL GOVERNMENT BOND	UAE	Sovereign	AE	1250	4.951	7/7/2052	AT MATURIT	USD	7/7/2022	AA	4.85	-
UAE INTERNATIONAL GOVERNMENT BOND	UAE	Sovereign	AE	1750	4.05	7/7/2032	AT MATURIT	USD	7/7/2022	AA	3.92	-
Bahrain Government International Bond	BHRAIN	Sovereign	BH	500	5.961	1/5/2026	AT MATURIT	USD	7/5/2022	B+	5.92	-

\*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

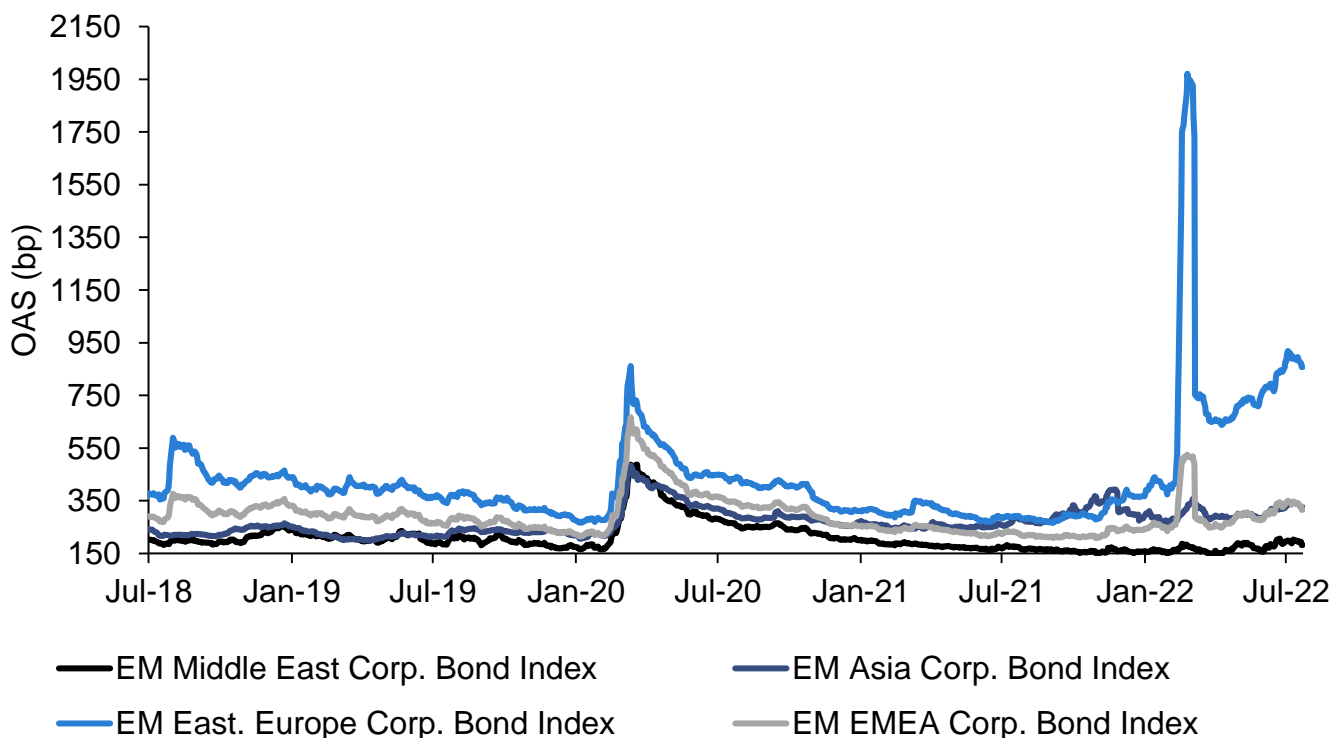
## Appendix

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



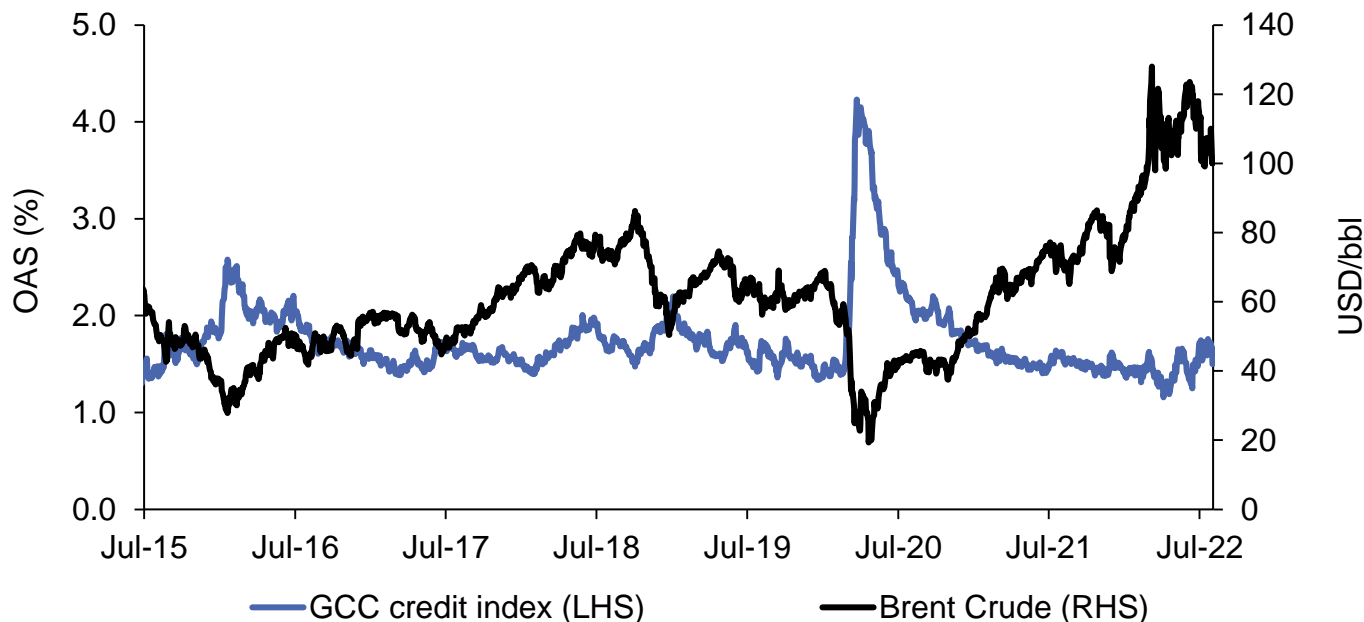
Source: Bloomberg Sovereign Bond Indices, ADCB Asset Management

### Emerging markets versus Middle East spread



Source: Credit Suisse Corporate Bond Indices, ADCB Asset Management

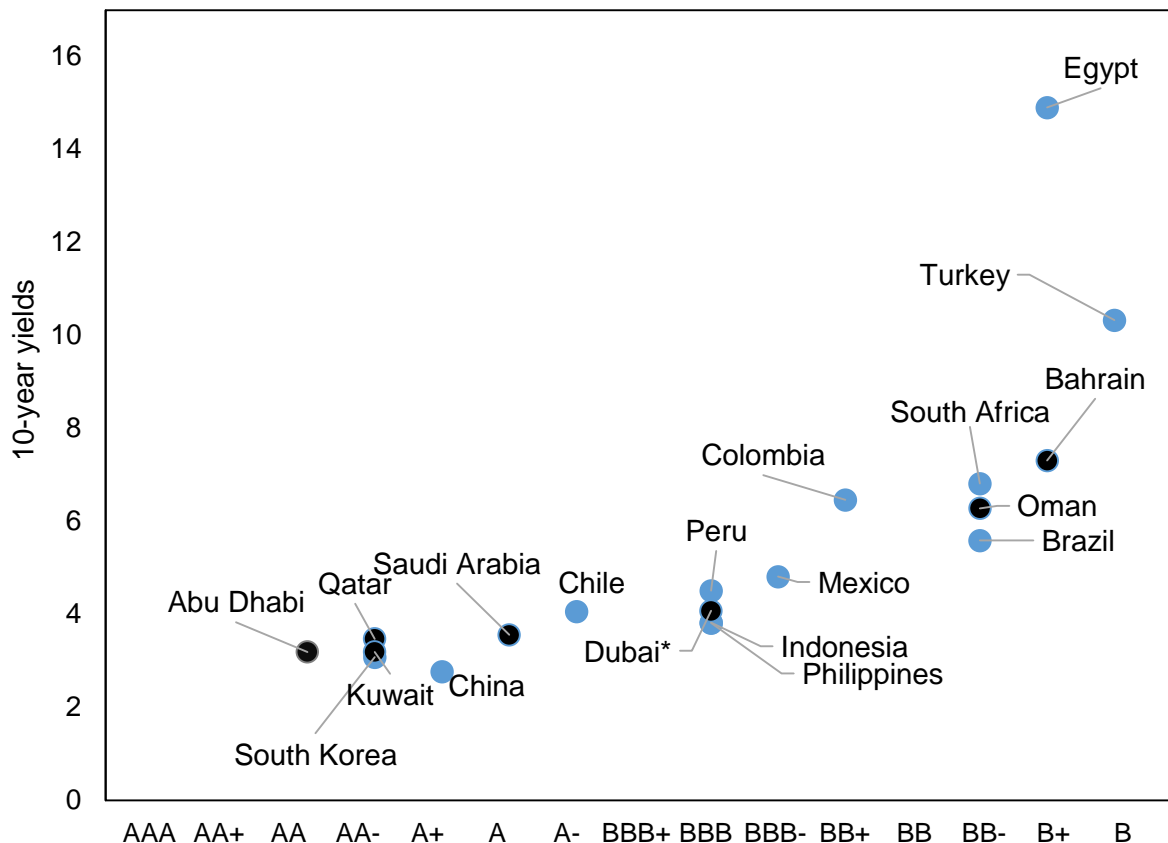
## GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB Asset Management

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

### GCC sovereigns trading cheap versus peers



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





## 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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