

GCC Fixed Income Weekly Review

Global bond markets started the year on a mixed note with developed market government bonds suffering losses on inflation concerns and monetary policy lift-off. US treasury yields rose across the curve as the Fed minutes signalled faster policy normalisation including the prospect of balance sheet run-off. Long-duration assets including corporate IG and EM USD bonds suffered the most. US HY recorded meagre losses while European HY posted positive returns.

GCC bonds also had a mixed start to the year with sentiment in the global bond markets impacting the appetite for bonds. Surprisingly, the low-rated sovereigns of Oman and Bahrain were less impacted while the higher-rated sovereigns- Saudi, UAE and Qatar led the underperformance. CDS spreads mostly widened across all countries. In the USD sovereign market, bond yields rose across all the countries with Dubai recording the largest jump in yields. Meanwhile, economic data out of GCC pointed to strong activity in December with Omicron concerns weighing on the business outlook. According to the latest PMI surveys, **growth in the non-oil private sector in Saudi Arabia slowed in December with the seasonally adjusted PMI dropping three points to 53.9 in December from 56.9 in November.** Similarly, **in the UAE, the December PMI slipped from the 29-month high recorded in November.** However, **in Dubai- the non-oil private sector PMI jumped to 55.3 in December, the highest level in 30 months.** Separately, the UAE central bank expects the **UAE economy to grow by 4.2% in 2022-** driven by an increase in public spending, improving credit growth, higher employment levels and a better business climate that will result from Expo 2020 Dubai continuing through Q1 2022.

In corporate issuances- **Saudi National Bank, the kingdom's largest bank, plans to issue US dollar-denominated senior unsecured Islamic bonds.**

Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aaa2	Baa1	A1	Ba2	Ba3	Aa3	B3
Fitch	A	AA	-	AA	B+	BB-	AA-	B+

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GCC Fixed Income Weekly Snapshot

BBG Barclays**	Latest	-1w %	YTD %	Interest rates (Sunday to Thursday)^			
				3M interbank	Latest	-1w (bp)	YTD (bp)
EM USD Agg TR	1,245.2	-1.5	-1.5	Saudi^^	0.91	0.43	0.43
EM LatAm TR	1038.7	-1.7	-1.7	UAE	0.44	7.3	7.3
EM EMEA TR	395.6	-1.3	-1.3	Kuwait	1.50	0.00	0.00
EM Asia TR	647.6	-1.6	-1.6	Bahrain	1.52	0.0	0.0
Bahrain TR	177.7	-0.4	-0.4	Oman	2.16	2.63	2.63
Oman TR	135.4	-0.9	-0.9	Qatar	1.15	2.5	2.5
Kuwait TR	149.8	-0.3	-0.3	US	0.23	1.69	1.69
Qatar TR	145.7	-1.9	-1.9	12M interbank	Latest	-1w (bp)	YTD (bp)
Saudi Arabia TR	149.4	-2.0	-2.0	Saudi^^	1.07	0.7	0.7
UAE TR	145.8	-1.3	-1.3	UAE	0.80	5.96	5.96
5Y Sov. CDS**	Latest (bp)	-1w (bp)	YTD (bp)	Kuwait	2.00	0.0	0.0
Saudi Arabia	51.6	-0.8	-0.8	Bahrain	1.77	0.00	0.00
Abu Dhabi	48.1	1.6	1.6	Oman	3.07	5.1	5.1
Dubai	99.5	-0.1	-0.1	Qatar	1.30	-2.50	-2.50
Kuwait	54.3	4.9	4.9	10Y yield	Latest	-1w (bp)	YTD (bp)
Bahrain	309.9	2.7	2.7	Saudi Arabia	2.68	19.9	19.9
Oman	273.5	3.5	3.5	Abu Dhabi	2.21	19.10	19.10
Qatar	47.8	1.6	1.6	Dubai	2.84	30.9	30.9
Egypt	526.3	0.3	0.3	Kuwait	1.74	9.90	9.90
Turkey	576.4	8.5	8.5	Bahrain	5.74	4.0	4.0
US	13.2	-1.3	-1.3	Oman	4.90	13.10	13.10
Germany	9.8	-0.3	-0.3	Qatar	2.30	20.1	20.1

Note: *Dewa rating used as proxy, ** data as of Friday close of 7th January 2022, ^ data as of Thursday close of 6th January 2022 | Source: Moody's rating, Fitch ratings, Bloomberg, ADCB Asset Management

Dubai's non-oil private businesses are seeing strong growth due to tourism

In December, Dubai's non-oil private sector grew strongly, driven by a surge in new orders thanks to broad tourist demand and the relaxation of COVID-19 measures. Purchasing Managers' Index (PMI) for Dubai rose from 54.5 in November to 55.3 in December, the highest level in 30 months. Firms' margins remain under pressure due to inflationary pressure from higher raw material costs and energy prices. Additionally, uncertainty about the pandemic lowered optimism for 2022. (Source: Zawya)

Non-oil sector businesses in the UAE grew strongly in December, according to the PMI

UAE's non-oil private sector ended 2021 on a strong note helped by growth in new businesses and faster rise in output levels. The seasonally adjusted PMI reported that IHS Markit dropped to 55.6 in December from 55.9 in November, when it touched a 29-month high. While new orders continued to rise, growth slowed to a three-month low in December. Export orders also increased modestly in December. The number of employees also increased, although marginally, reflecting a further recovery in employment after a long period of decline. Business confidence fell to its lowest point in three months in December, with just 14% of respondents indicating a positive outlook, with some warning of increased travel restrictions due to the Omicron wave of the pandemic. more rapidly than they have in the past nine months. (Source: Zawya)

Saudi private sector growth slows due to concerns about Omicron

Growth in Saudi Arabia's non-oil private sector slowed in December 2021 due to concerns about the Omicron COVID-19 variant. The seasonally adjusted IHS Markit Saudi Arabia PMI dropped three points to 53.9 in December from 56.9 in November. Although the reading fell to its lowest level since March, the non-oil private sector economy was still showing solid improvement. The report concluded that output levels rose at the slowest rate since August, while new orders grew much more slowly, leading to a decrease in backlogs and slower hiring activity. Overall costs grew faster than in June as raw materials and input prices rose. Therefore, the outlook for future activity fell to its lowest level in 18 months. (Source: Zawya)

UAE Central Bank expects UAE economy to grow by 4.2% in 2022.

According to the UAE's central bank, the country's real GDP will grow by 4.2% in 2022, and non-hydrocarbon real GDP by 3.9%. A number of factors could positively affect the GDP, including an increase in public spending, an increase in credit growth, higher employment levels and a better business climate that will result from Expo 2020 Dubai continuing through Q1 2022. The oil sector's growth projection for 2022 remains unchanged at 5.0%. In terms of GDP projections for 2022, the non-oil and oil sectors are both subject to upside risks, if global economies, trade and travel recover more quickly than anticipated, whereas downside risks are connected to uncertainty regarding new variants and vaccination rates globally. (Source: Zawya)

The Saudi National Bank will issue sukuk denominated in dollars

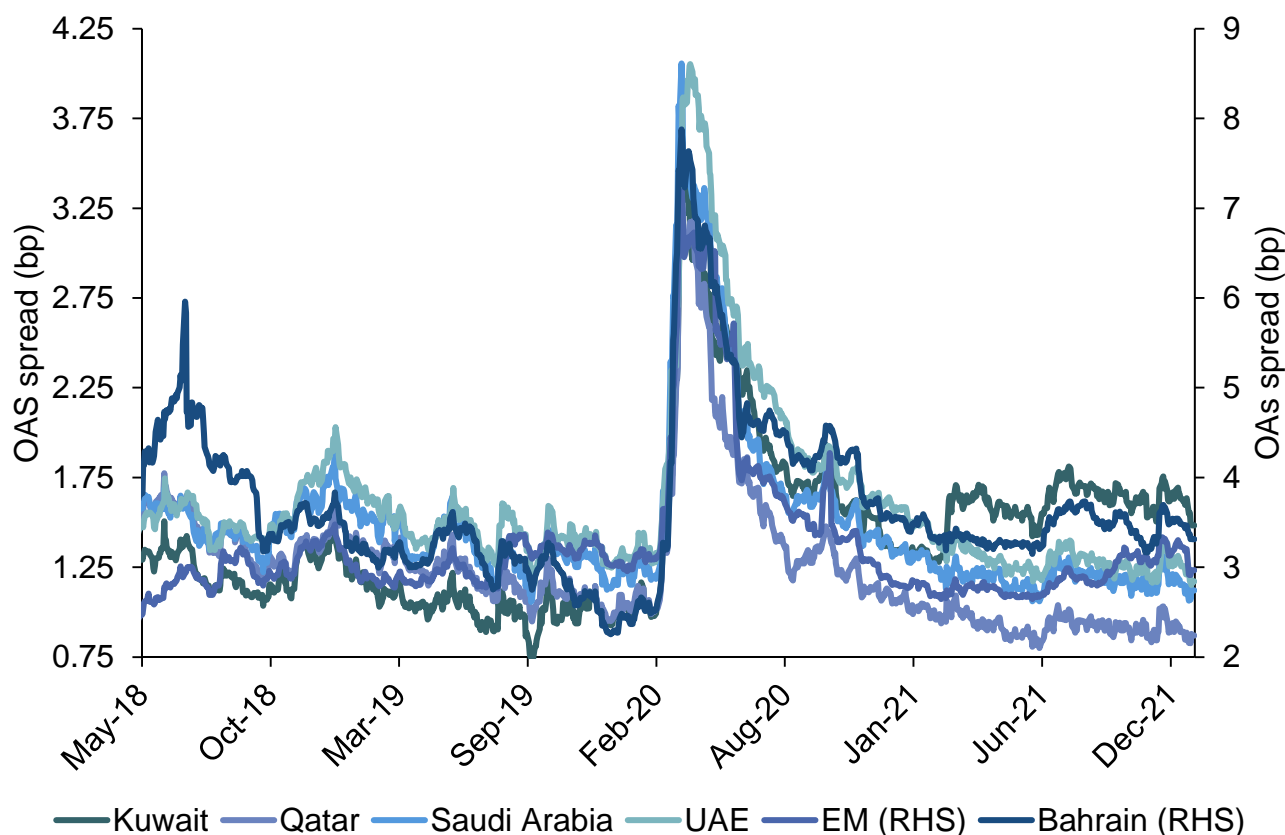
Saudi National Bank, the kingdom's largest bank, plans to issue US dollar-denominated senior unsecured Islamic bonds. The Sukuk terms and issuance amounts will be determined later based on market conditions. In addition, the proposed issuance, whose proceeds will be used in general corporate purposes, will be conducted through a special purpose vehicle and will be open to investors in the kingdom as well as overseas. (Source: Zawya)

Saudi bonds added to the iBoxx Index

Saudi's exchange operator Tadawul stated that the IHS Markit has added the Saudi government sukuk to its iBoxx global government bond index. Saudi's Capital market Authority indicated that the inclusion of the Saudi bonds will help attract interest from international investors. An aggregate of 27 government debt instruments listed on Tadawul will be included in the index from January 31 2022 with weight of around 0.19% of the iBoxx weight. (Source: Zawya)

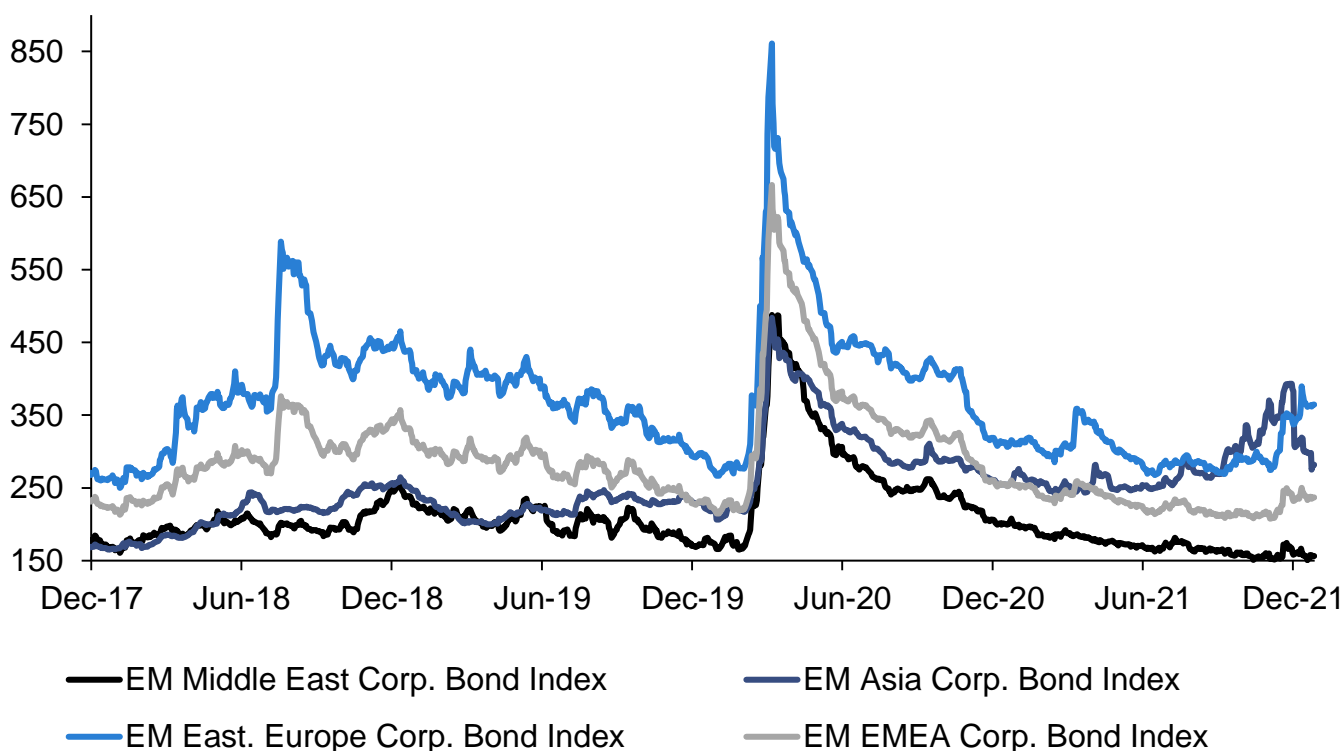
Appendix

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



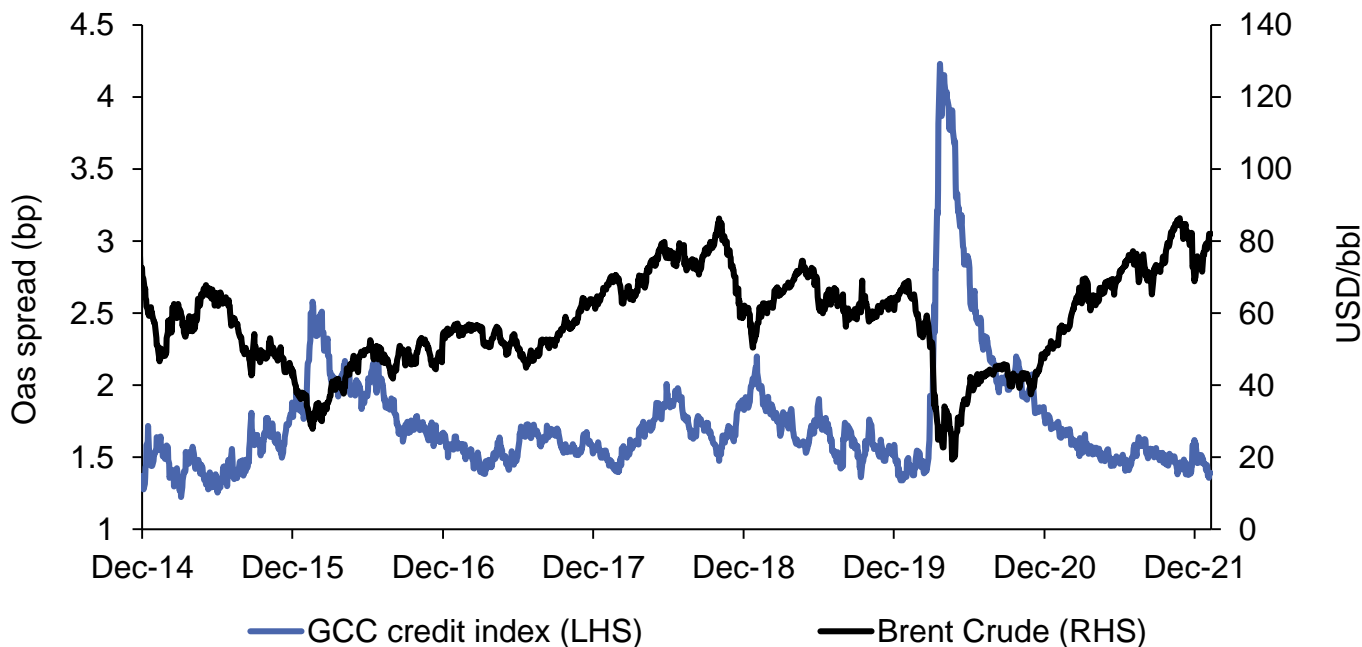
Source: Bloomberg Barclays Sovereign Bond Indices, ADCB

Emerging markets versus Middle East spread



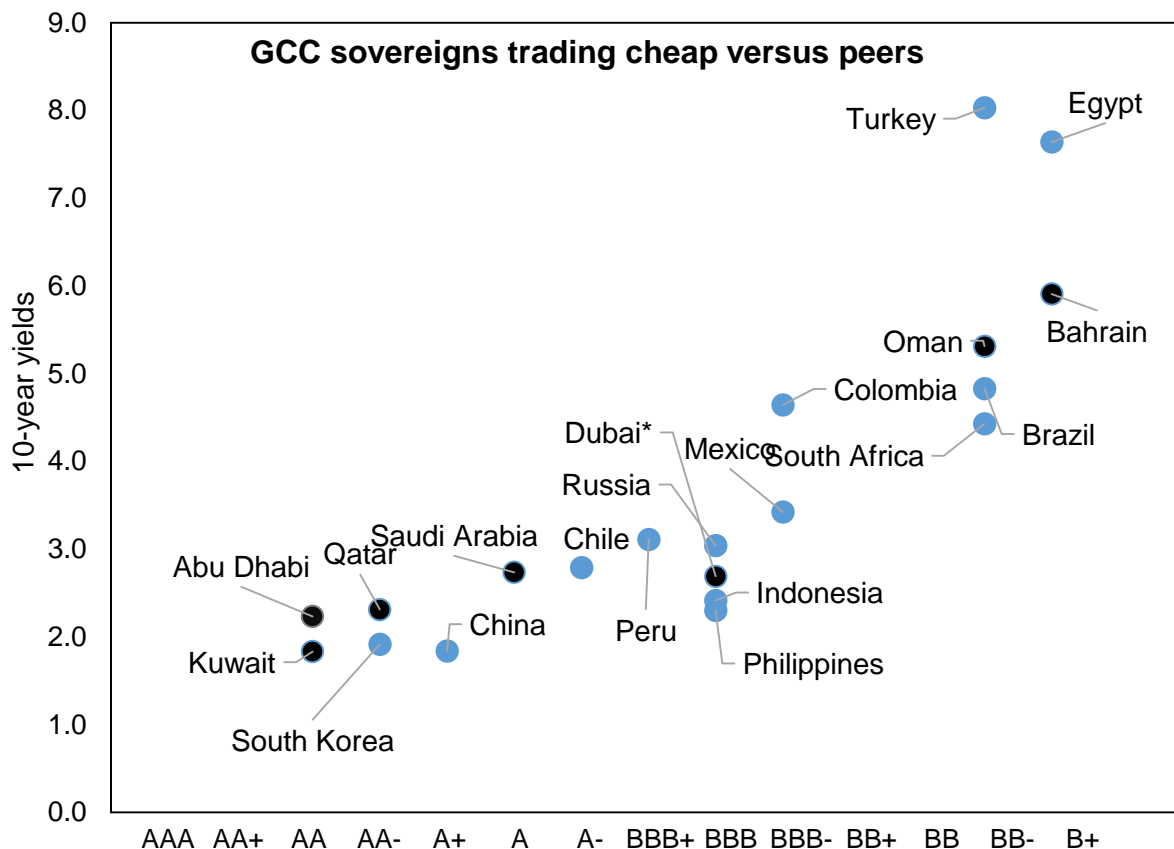
Source: Credit Suisse Corporate Bond Indices, ADCB

GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

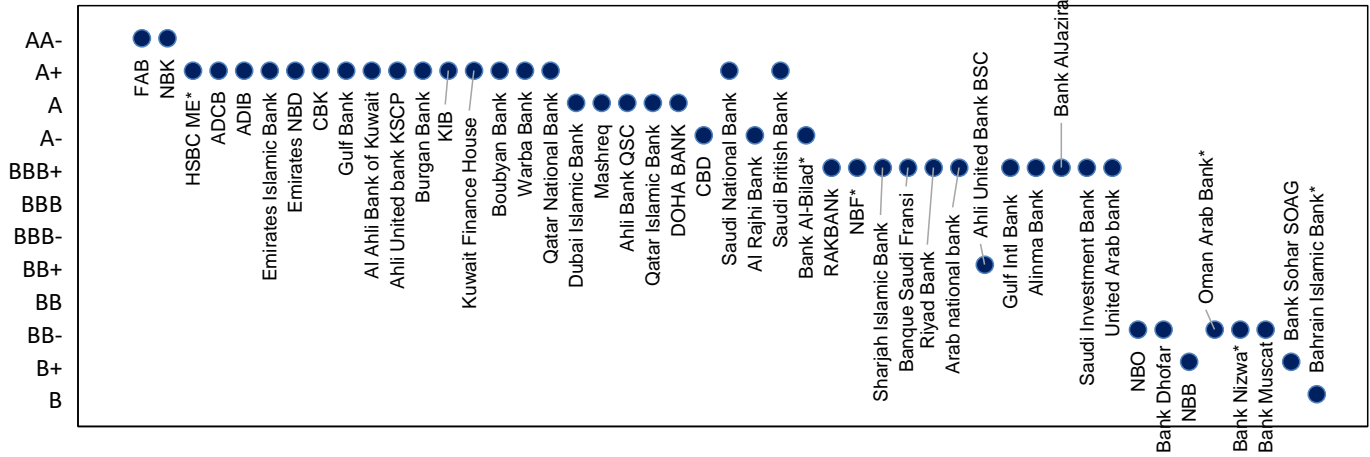
10yr yield versus Credit ratings (EM vs GCC)



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

GCC Financials Credit Rating

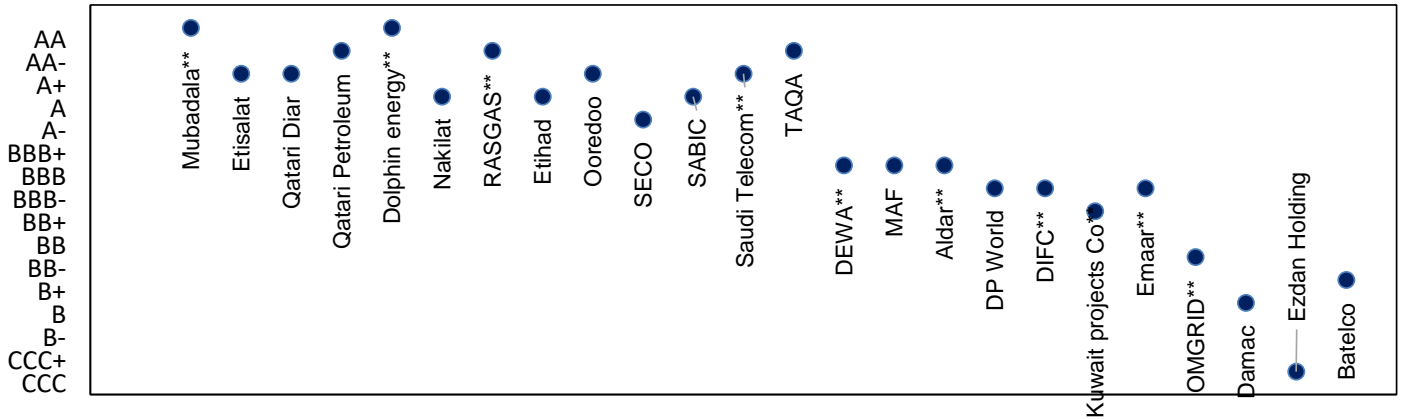
GCC Financials



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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