

GCC Fixed Income Weekly Review

Global benchmark bond index recorded another weekly loss, coming under pressure due to pick-up in DM sovereign bond yields. Long-term UST yields jumped in reaction to the moderately hawkish Fed meeting which signalled a potential taper to begin soon. US corporate IG market reached one year high mid-week but ended the week lower due to the rally in UST yields. In UK, gilt yields climbed post the hawkish BoE bias. Core bond yields in Europe also jumped, tracking the move higher in UST and Gilt yields. EM bonds sold-off, reacting to hawkish DM central bank bias amidst China Evergrande concerns weighing on the sentiment.

GCC bonds lacked appetite, in line with the trend seen in emerging markets. The mood was fairly risk-off on the back of China Evergrande default fears followed by the Fed taper signal. Lower-rated sovereigns of Oman and Bahrain suffered the most. On the other hand, better-rated sovereigns of Saudi, UAE and Qatar were less vulnerable to the global volatility. CDS spreads tightened with the exception of Oman and Bahrain. In the USD bond market, 10yr bond yields jumped the most in Oman while Kuwait was the only exception where bond yields dropped.

After UK's green bond debut, Saudi's PIF, one of the world's largest sovereign wealth fund is planning to issue its first green bond, incorporating ESG into over USD400bn of global investments. PIF's new green bond issuance would mark the first by a sovereign wealth fund. In addition, **the Arab Petroleum Investments Corp. (APICORP) also has launched a green bond framework as a part of its plans to raise bonds that are aligned ESG principles.** The bank has green assets worth USD500mn in loans and direct investments. **In the UAE, the central bank plans to start withdrawing some of the pandemic –related stimulus with recent economic data confirming the country's economic recovery from the pandemic.** However, in order to avoid disruptions in the credit supply, the central bank will withdraw the Targeted Economic Support Scheme (TESS) gradually and in a well-calibrated manner. Separately, **the central bank expects the UAE economy to grow by 2.1% this year and by 4.2% in 2022.**

In corporate issuances, Kuwait-based Warba Bank is planning to issue another sukuk to boost its capital base. In a statement to Boursa Kuwait on Wednesday, the bank said that Central Bank of Kuwait had approved the issuance of Additional Tier 1 securities worth USD250mn.

| 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+ |

Prerana Seth

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

Mohammed Al Hemeiri

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

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GCC Fixed Income Weekly Snapshot

| Bond Index Snapshot (Emerging market and GCC) | | | | Interest rates (Sunday to Thursday) | | | |
|---|-------------|----------|----------|--------------------------------------|--------|----------|----------|
| | Latest | -1w % | YTD % | | Latest | -1w (bp) | YTD (bp) |
| BBG Barclays** | | | | 3M interbank | | | |
| EM USD Agg TR | 1,281.5 | -0.9 | -0.5 | Saudi [^] | 0.81 | 1.00 | -1.04 |
| EM LatAm TR | 1069.4 | -1.4 | -1.6 | UAE | 0.45 | 8.6 | -6.0 |
| EM EMEA TR | 405.8 | -0.8 | 0.8 | Kuwait | 1.50 | 0.00 | 6.25 |
| EM Asia TR | 668.7 | -0.5 | -1.0 | Bahrain | 1.56 | 0.0 | -69.2 |
| Bahrain TR | 178.6 | -0.7 | 0.9 | Oman | 2.16 | -0.87 | -51.17 |
| Oman TR | 134.9 | -1.2 | 6.6 | Qatar | 1.13 | -1.7 | 0.8 |
| Kuwait TR | 151.2 | -0.2 | 1.3 | US | 0.13 | 1.03 | -10.61 |
| Qatar TR | 147.7 | -0.5 | -0.9 | 12M interbank | | | |
| Saudi Arabia TR | 151.8 | -0.5 | 0.2 | Saudi [^] | 0.93 | 1.1 | -1.6 |
| UAE TR | 147.6 | -0.4 | 1.0 | UAE | 0.43 | -24.12 | -22.63 |
| 5Y Sov. CDS | Latest (bp) | -1w (bp) | YTD (bp) | Kuwait | 2.00 | 0.0 | 6.3 |
| Saudi Arabia | 54.9 | -1.8 | -13.0 | Bahrain | 1.80 | 0.00 | -88.33 |
| Abu Dhabi | 44.6 | -1.6 | 4.9 | Oman | 3.04 | -3.1 | -29.7 |
| Dubai | 98.0 | -3.0 | -22.2 | Qatar | 1.34 | 0.03 | -1.89 |
| Kuwait | 55.2 | -2.4 | 7.4 | 10Y yield | Latest | -1w (bp) | YTD (bp) |
| Bahrain | 288.16 | 8.8 | 34.6 | Saudi Arabia | 2.43 | 7.7 | 6.8 |
| Oman | 274.3 | 12.4 | -102.0 | Abu Dhabi | 1.89 | 6.50 | 27.90 |
| Qatar | 44.7 | -1.4 | 4.6 | Dubai | 2.51 | 1.6 | -8.2 |
| Egypt | 433.6 | 31.1 | 81.6 | Kuwait | 1.22 | -2.20 | 8.40 |
| Turkey | 423.6 | 18.6 | 113.2 | Bahrain | 5.58 | 13.0 | 76.8 |
| US | 15.0 | -0.4 | -1.8 | Oman | 4.95 | 16.10 | -52.20 |
| Germany | 9.8 | -0.8 | -2.6 | Qatar | 1.99 | 8.1 | 33.5 |

Note: ^{*}Dewa rating used as proxy, ^{**} data as of Friday close | Source: Moody's rating, Fitch ratings,, Bloomberg, ADCB Asset Management

Saudi Arabia's sovereign wealth fund plans to issue its first green bond

Saudi Arabia's PIF, one of the world's largest sovereign wealth funds is planning to launch its first green bond issuance, incorporating ESG into over USD400bn of global investments. Saudi Aramco's chairman, Yasir Al-Rumayyan, stated that the multi-billion-dollar sovereign wealth fund is preparing to announce more details about the major green issuance soon. For its capital-raising strategy, the sovereign wealth fund recently appointed five international banks to its environmental, social, and governance (ESG) panel. PIF's new green bond issuance would mark the first by a sovereign wealth fund. PIF manages a USD400bn portfolio of investments in a range of sectors, from food and agriculture to food processing, real estate, utilities, renewables, aerospace, transportation, construction, and financial services. (Source: Zawya).

Kuwaiti bank Warba to issue USD250mn sukuk

Kuwait-based Warba Bank is planning to issue another sukuk to boost its capital base. In a statement to Bursa Kuwait on Wednesday, the bank said that Central Bank of Kuwait had approved the issuance of Additional Tier 1 securities worth USD250mn. The bank said that the final approval for the issuance will be obtained from the central bank after submitting the final prospectus for the sukuk. Also, in March 2017, the bank issued an additional \$250 million sukuk, which was subsequently approved by the central bank to recall its outstanding Additional Tier 1 Capital sukuk. (Source: Zawya)

APICORP introduces green bond framework

As part of its plans to raise bonds that are aligned with environmental, social and governance principles (ESG) the Arab Petroleum Investments Corp. (APICORP) has launched a green bond framework. The multilateral development bank has allocated USD1bn to support green energy projects over the next two years. The bank's green assets currently amount to USD500mn in loans and direct investments. APICORP recently announced that the new framework will enable it to raise green bonds and sukuk in a way that reinforces its commitment to projects that are aligned with its recently approved ESG policy framework. (Source: Zawya)

UAE economy is expected to grow 2.1% this year, according to the central bank

The central bank of UAE expects the UAE economy to grow by 2.1% this year and by 4.2% in 2022, as the Gulf state recovers from the Covid-19 downturn. The UAE's economy continued to recover in the second quarter, reaching almost pre-COVID-19 levels, the central bank said in its quarterly economic review. Also, Dubai expects their economy to growth of 3.1% this year and 3.4% next year (Source: Zawya)

COVID-19 stimulus measures begin to be withdrawn by the UAE Central Bank

The Central Bank of the UAE will start gradually unwinding stimulus measures introduced to mitigate the economic slowdown caused by COVID-19. According to the central bank, the UAE's financial system is stable and banks' liquidity and capital buffers remain adequate. The governor of the Central Bank of the UAE, Khaled Mohamed Balama stated that the assessment indicates that the UAE economy is gradually recovering, confirmed by recent economic data. To avoid restricting credit supply and economic growth, the central bank is withdrawing its Targeted Economic Support Scheme (TESS) gradually and in a well-calibrated manner. The central bank also confirmed that the level of loan-to-value ratio applicable to housing loans for first-time buyers will remain unchanged, for the short term, since reserve requirements for banks were temporarily lowered. Additionally, the regulator said that the relief measures that allow banks to maintain lower capital and liquidity buffers may be extended beyond this year, depending on economic recovery and loan demand. (Source: Zawya)

Latest bond issuances (Corporate and Sovereigns)

| Issuer | BBG | Sector | Country | Issue Amt | Cpn | Maturity | Maturity Type | Currency | Issue Date | Rtg ^ | YTM (mid) | YTC (mid) |
|---|--------|------------|---------|-----------|-------|-----------|---------------|----------|------------|-------|-----------|-----------|
| First Abu Dhabi Bank PJSC | FABUH | Financials | AE | 344.73 | 1.125 | 9/7/2026 | AT MATURITY | GBP | 9/7/2021 | AA- | 1.20 | - |
| ADCB | ADCBUH | Financials | AE | 285 | 1.72 | 9/7/2026 | AT MATURITY | USD | 9/7/2021 | A+ | 1.55 | - |
| AUB Sukuk Ltd | AUBBI | Financials | BH | 600 | 2.615 | 9/9/2026 | AT MATURITY | USD | 9/9/2021 | BBB | 2.55 | - |
| Abu Dhabi Government International Bond | ADGB | Financials | AE | 1750 | 1.875 | 9/15/2031 | AT MATURITY | USD | 9/15/2021 | AA | 1.97 | - |
| Abu Dhabi Government International Bond | ADGB | Financials | AE | 1250 | 3 | 9/15/2051 | AT MATURITY | USD | 9/15/2021 | AA | 2.97 | - |
| NBK SPC Ltd | NTBKKK | Financials | KW | 1000 | 1.625 | 9/15/2027 | CALLABLE | USD | 9/15/2021 | AA- | 1.68 | 1.79 |

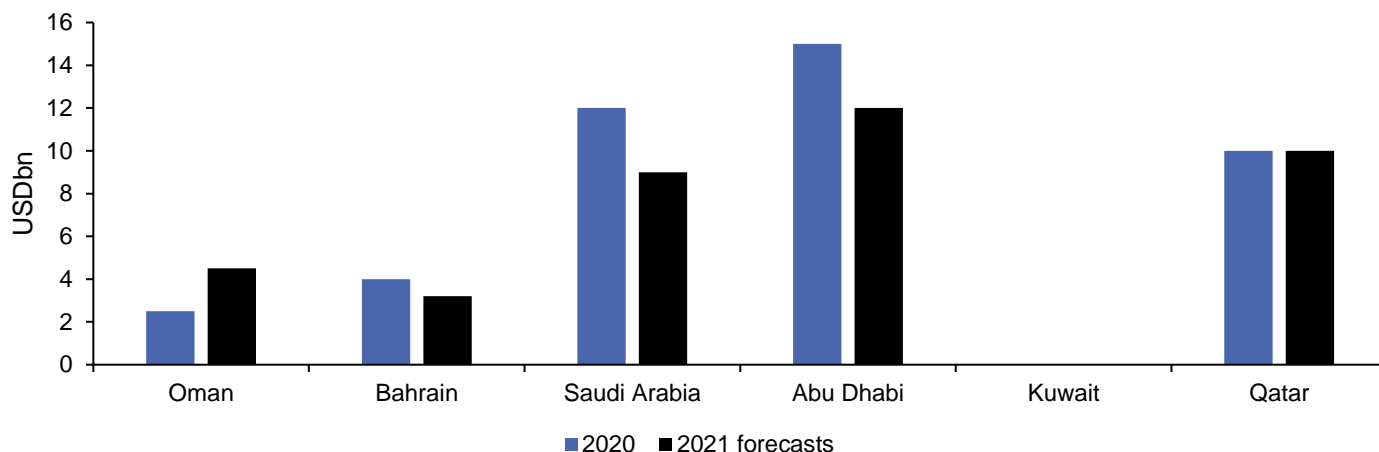
*Amount Issued in USDmillion, Bloomberg sector classification has been used, ^Issuer rating used where applicable, Fitch rating or equivalent used

Source: Fitch Ratings, Moody's ratings, Bloomberg, ADCB Asset Management

Appendix

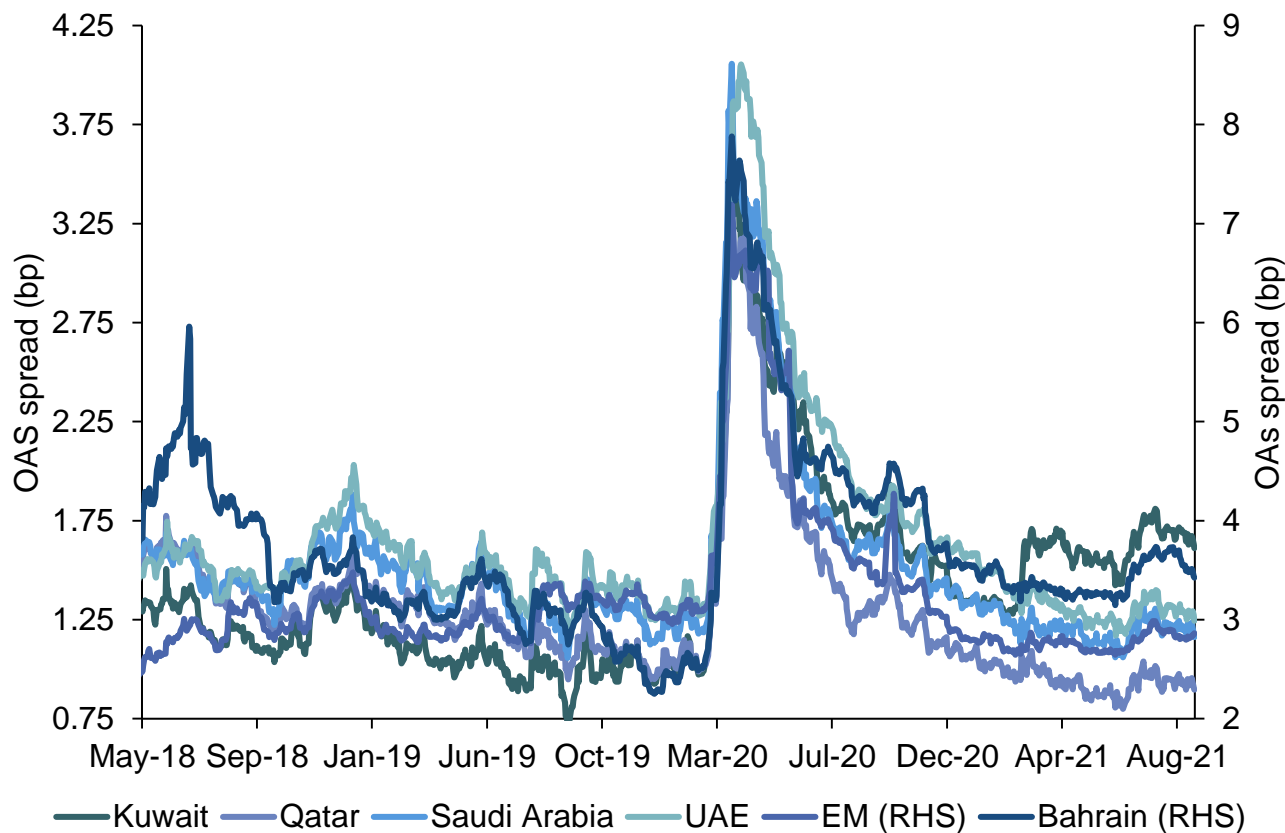
GCC sovereign borrowing estimates

GCC sovereigns to borrow less in 2021, barring Oman



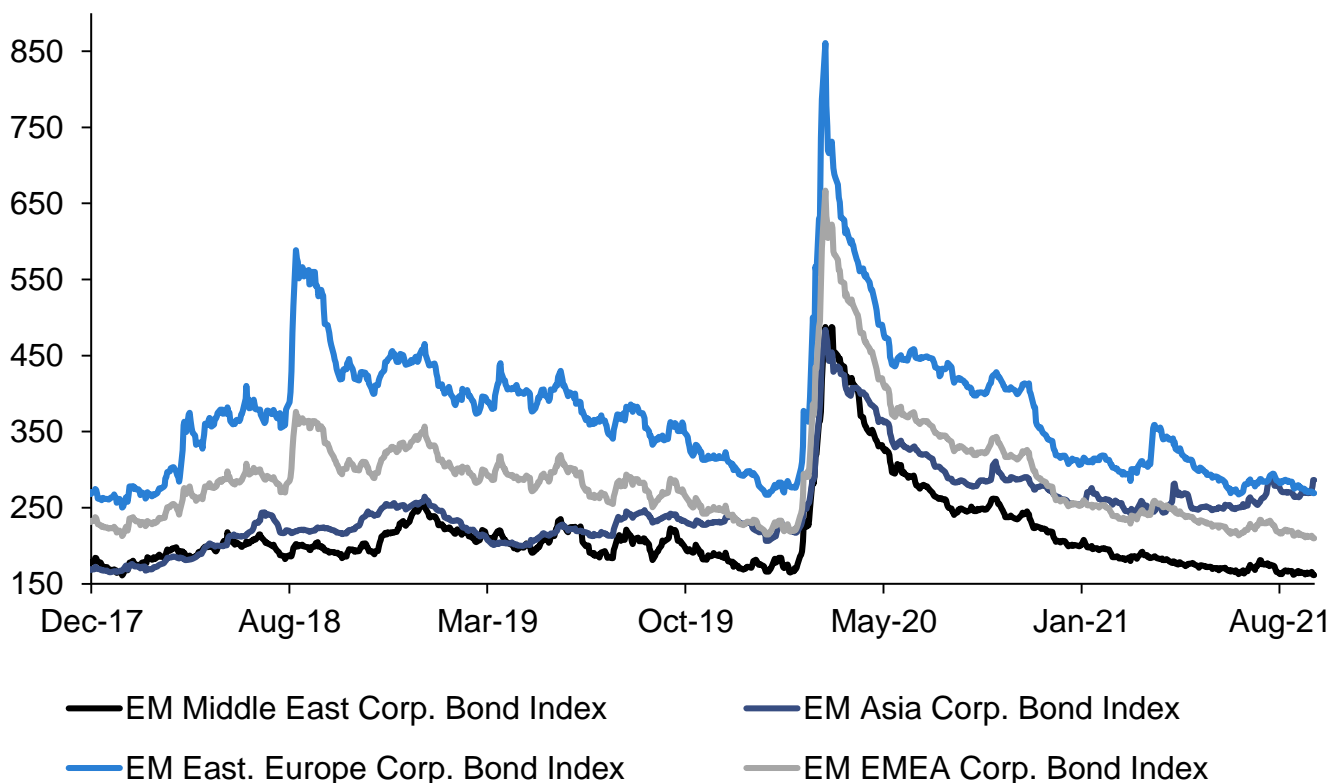
Source: Government Sources, Bloomberg, ADCB Investment Strategy estimates

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



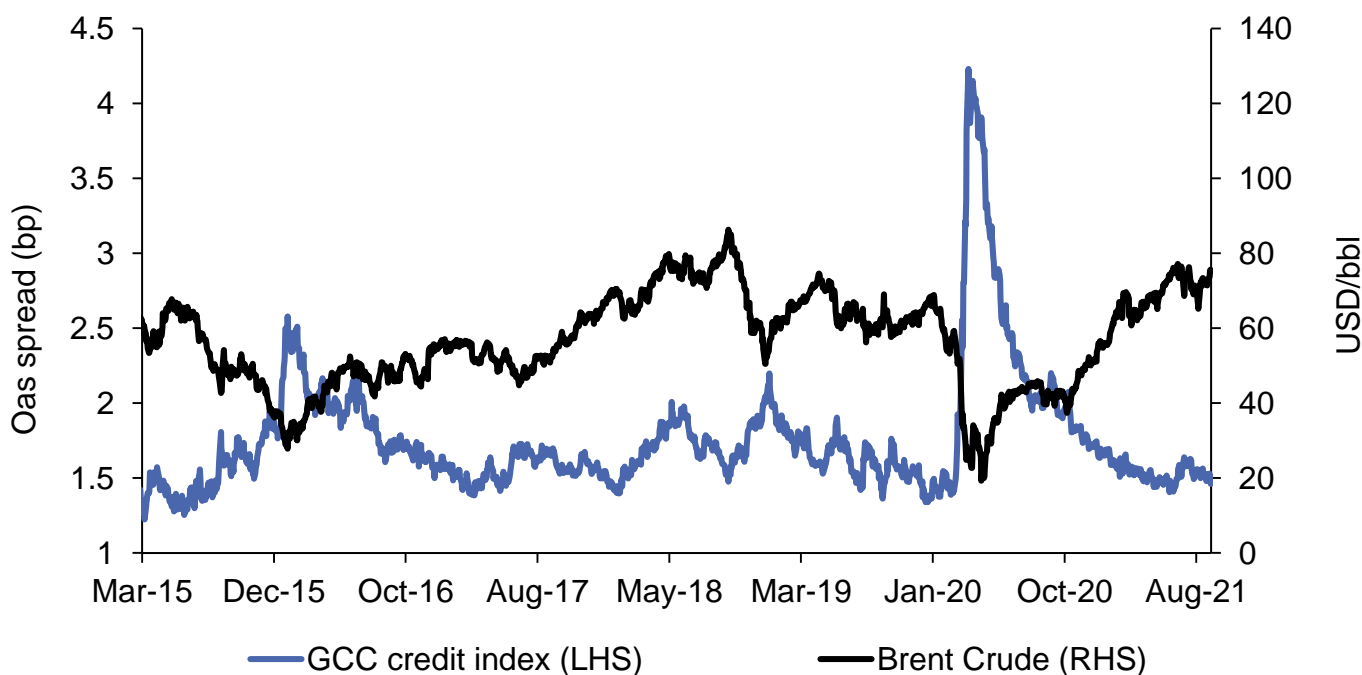
Source: Bloomberg Barclays Sovereign Bond Indices, Bloomberg, ADCB Asset Management

Emerging markets versus Middle East spread



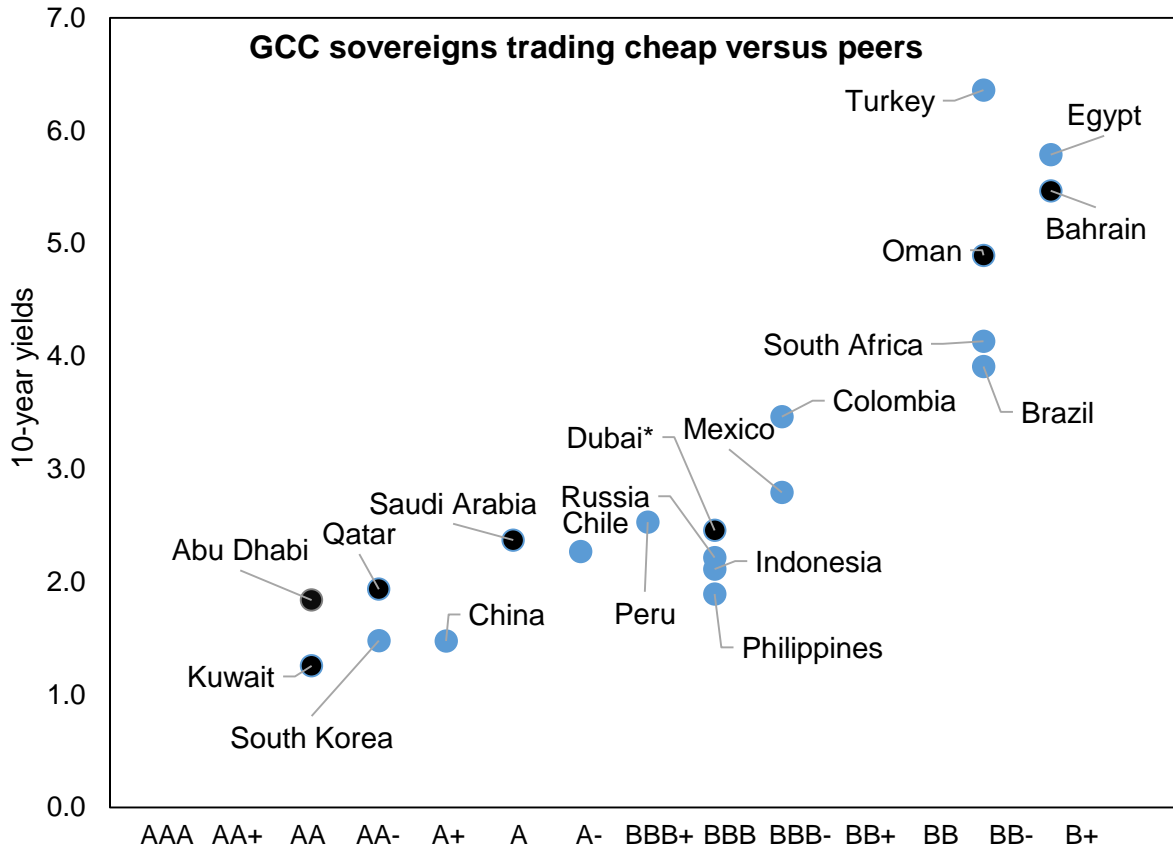
Source: Credit Suisse Corporate Bond Indices, Bloomberg, ADCB Asset Management

GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

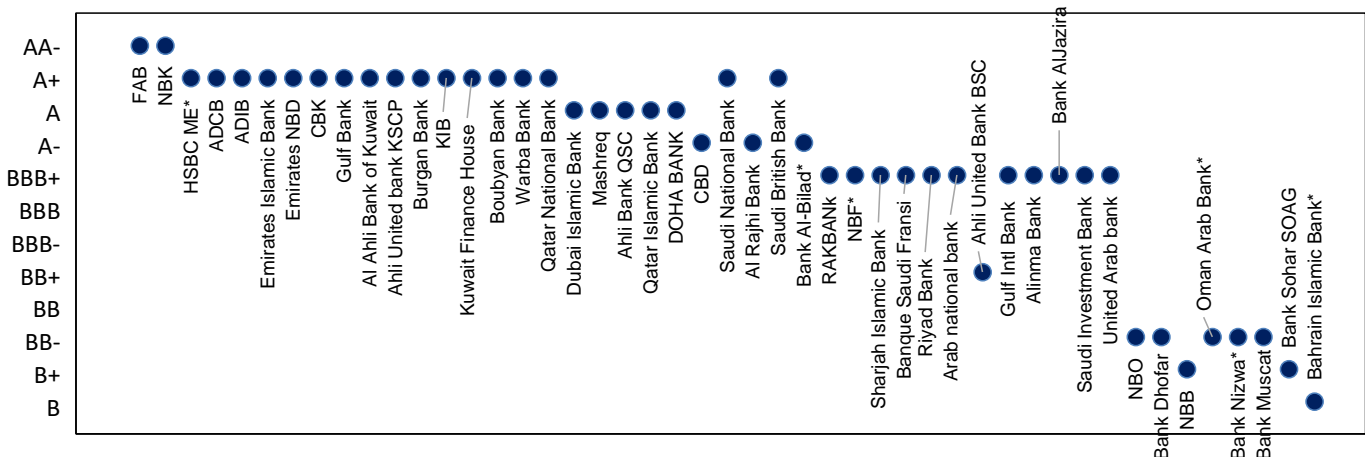
10yr yield versus Credit ratings (EM vs GCC)



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

GCC Financials Credit Rating

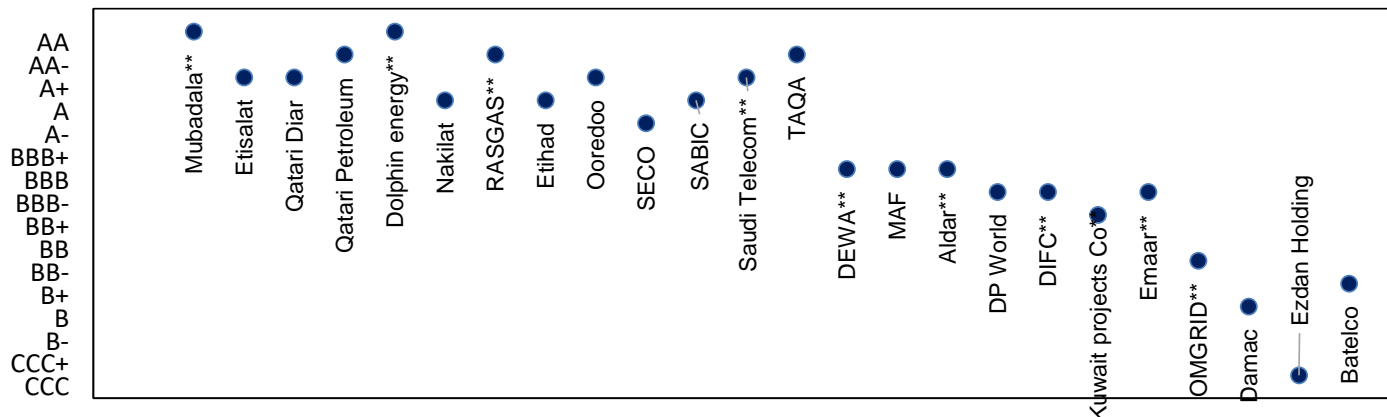
GCC Financials



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

GCC Corporate 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: Fitch ratings, Moody's ratings, 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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