

GCC Fixed Income Market : 2019 - The Year That Was...

GCC fixed income issuance growth was back in the green during 2019 with record issuances during the year as compared to a y-o-y decline in the previous year. Total issuances reached USD 140.8 Bn during the year as compared USD 115 Bn during 2018 led by higher issuances of both bonds and sukuk with double digit growth rates vs. the previous year. Bond issuances during the year reached USD 94.4 Bn as compared to USD 74.9 Bn during 2018, recording a growth of 26%. On the other hand, Sukuk issuances increased by 15.8% during the year to reach USD 46.4 Bn as compared to USD 40.1 Bn during 2018.

Total fixed income issuances for the MENA region increased by 13.2% to reach USD 179.8 Bn in 2019 as compared to USD 158.8 Bn during the previous year. The y-o-y increase in 2019 was solely led by GCC countries that more than offset the decline in issuances by non-GCC MENA countries. There were no sukuk issuances in the five non-GCC MENA countries (Egypt, Jordan, Lebanon, Morocco and Tunisia) in 2019 as compared to marginal issuance of USD 0.3 Bn in 2018 coming from Morocco and Jordan. Bond issuances from the five countries declined for the fourth consecutive year in 2019 and stood at USD 38.9 Bn in 2019 witnessing a decline of 10.6% from a total issuance of USD 43.5 Bn in 2018. For the MENA bonds market, USD-denominated bonds topped at USD 84.2 Bn followed by EGP and QAR at USD 10.0 Bn and USD 8.3 Bn, respectively. In terms of currency of issuance, MYR-denominated sukuk topped the global sukuk issuance market at USD 48.3 Bn followed by USD and SAR at USD 28.8 Bn and USD 18.3 Bn.

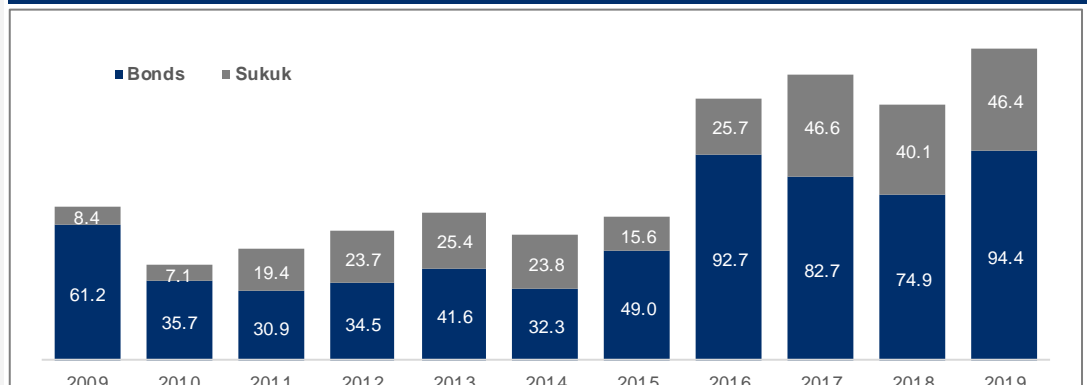
The increase in issuances in the MENA region came on the back of declining oil revenues, especially in the case of the GCC countries, that led to a deterioration of fiscal performance. As per IMF, GCC fiscal deficit is estimated to have increased to 2.4% of GDP in 2019 and is further expected to increase to 3.3% in 2020. Governments are increasingly seeking private sector participation in improving the economic balance by growing non-oil revenues. This led to higher borrowing by corporates. Furthermore, debt issuance market got a big boost in 2019 with almost 75 bps decline in benchmark rates that motivated governments and corporates to take the debt route along with privatization of state-owned enterprises.

For 2020, we expect sustained levels of issuances from GCC corporates as lower rates entice fund rising via bonds and sukuk. However, the expected positive equity market performance in the region is expected to offset some of the impact of lower rates. Governments are also expected to tap the privatization route, although with rising deficits amid lower oil prices may lead to marginal increase in debt issuances.

Sovereign Credit Ratings

Country	S&P	Moody's	Fitch
Abu Dhabi	AA	Aa2	AA
Bahrain	B+	B2	BB-
Kuwait	AA	Aa2	AA
Oman	BB	Ba1	BB+
Qatar	AA-	Aa3	AA-
Saudi Arabia	A-	A1	A
UAE	NR	Aa2	NR

Fixed Income Issuances in GCC (USD Bn)



Source: Bloomberg, Kamco Research

Note: Bond and sukuk issuances in the report includes instruments with original maturity >1 year and Country of Domicile/Country of Risk is for the specified region.

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US & MENA Rate Hikes

After four rate hikes in 2018, the US Fed almost reversed all of 2018's rate hikes and lowered benchmark interest rates three times in 2019. The Fed decreased the rate by 75 basis points in three 25 bps steps to less than 2%, to a range of 1.5% - 1.75%. The lowering of rates came on the back of increasing uncertainty about economic growth rates led by US-China trade disputes further supported by muted inflation pressures. The third rate cut in September-19 was led by signs of slowing economy although unemployment rates reached one of the lowest levels and US economic growth was stable. And as trade deal talks between the US and China have progressed since the start of the year, the US Fed is expected to leave the rates unchanged at current levels.

Fed Fund Rate vs. GCC Key Rates

	Dec-17	Dec-18	Dec-19
US Fed Funds Rate	1.25%-1.50%	2.25%-2.50%	1.5%-1.75%
Saudi Arabia REPO Rate	2.00%	3.00%	2.25%
UAE REPO Rate	1.75%	2.75%	2.00%
Kuwait CB Disc Rate	2.75%	3.00%	2.75%
Qatar REPO Rate	5.00%	5.00%	4.25%
Bahrain O/N REPO Rate	3.50%	4.50%	4.00%

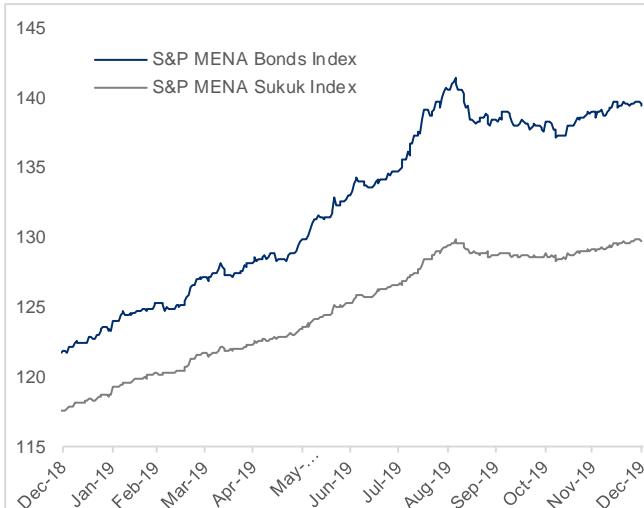
Source: US Federal Reserve, Bloomberg

Data indicates end-of-period target rates/ranges. Source: US Federal Reserve, Central Bank of Kuwait, Bloomberg

Rate hikes within the GCC were more differentiated with central banks using different tools in response to US rate hikes. Kuwait's central bank lowered its discount rate once during the year by 25 bps in October-19 after the third installment from the US Fed. Bahrain's central bank also lowered rate twice during the year during July-19 and October-19 by 25 bps each and closed the year with an overnight repo rate of 4.0%. For the rest of the GCC countries, the response was in line with the US Fed actions. Saudi central bank lowered its rate to 2.25% by the end of the year with a full year decline of 75 bps. UAE and Qatar central banks also lowered rates by 75 bps during the year to close the year at 2.0% and 4.25% for the repo rates, respectively.

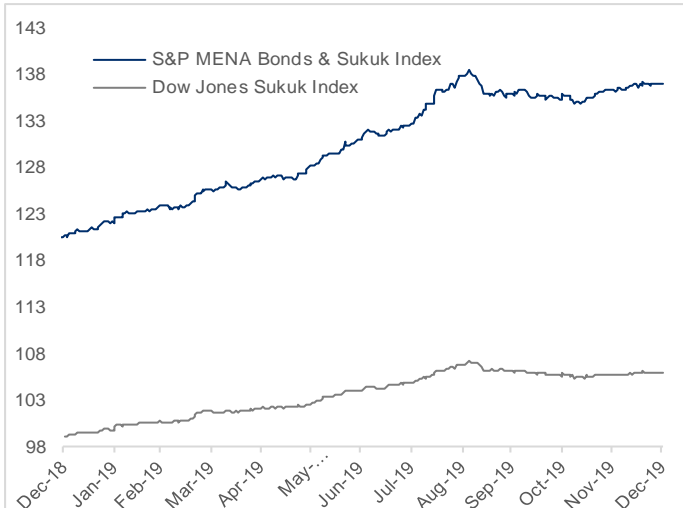
Fixed Income Market Performance

MENA Fixed Income Indices



Source: Bloomberg, Kamco Research

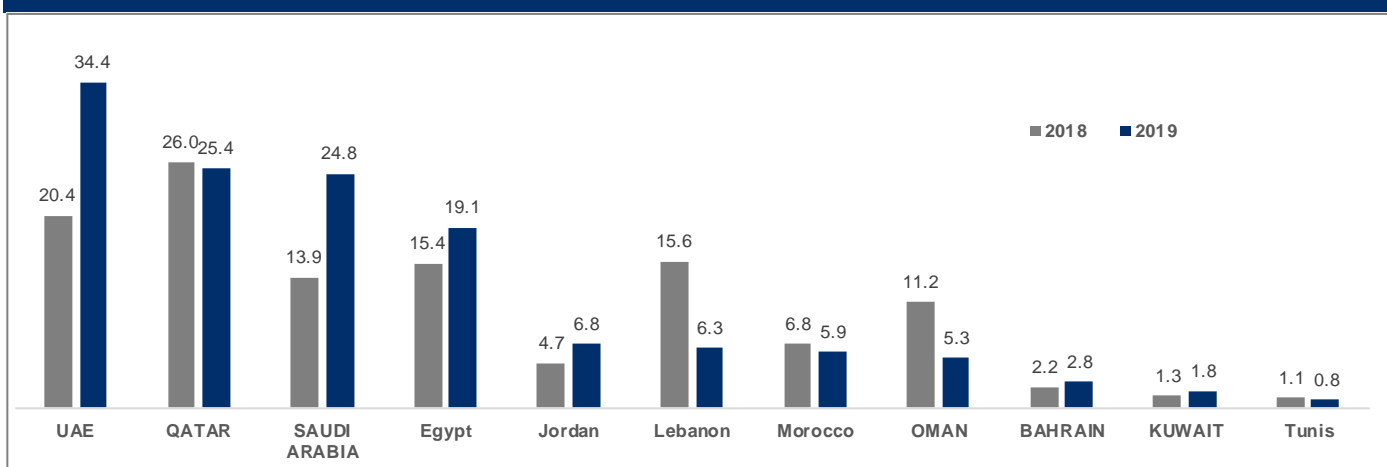
MENA Vs. Global Sukuk Index



Regional fixed income indices continued to outperform global indices with double digit performance across the board as compared to mostly mid-single digit returns for global benchmarks. The Global Investment Grade Debt index witnessed a growth of 6.8% during the year while the Global High Yield Index witnessed a surge of 12.6%. Global sukuk index grew at 6.9%. On the other hand, the MENA Bonds index witnessed one of the highest yearly returns of 14.5% whereas the MENA sukuk index grew by 10.3%. The blended MENA Bonds & Sukuk index grew by 13.6% during the year. For the broader EM universe, the EM USD Aggregate Total Return Index witnessed a growth of 13.1% whereas the EM GCC USD Sukuk Total Return index surged 12.0% in 2019.

MENA Bond Issuances

Bond Issuances (USD Bn) - 2019 vs. 2018



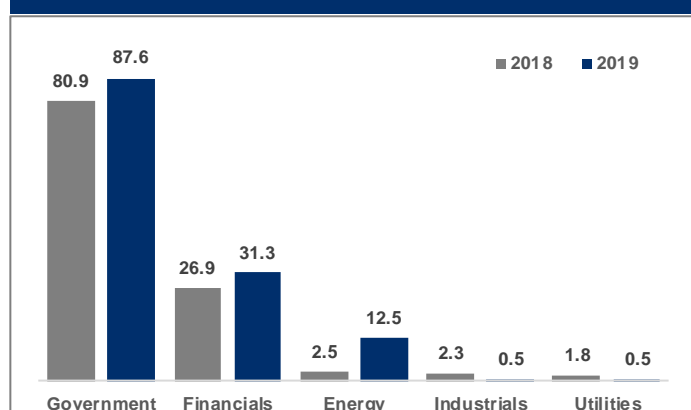
Source: Bloomberg, Kamco Research

After declining for two consecutive years in 2017 and 2018, bond issuances in the MENA region increased during 2019 led by higher issuances primarily from GCC countries that was partially offset by a decline in issuance from non-GCC MENA countries. Total bonds issued by MENA countries increased by 12.6% to reach USD 133.3 Bn as compared to USD 118.4 Bn during 2018. Bond issuances by GCC countries stood at USD 94.4 Bn in 2019 as compared to USD 74.9 Bn in 2018, while non-GCC MENA countries recorded a decline of 10.6% with issuances of USD 38.9 Bn in 2019 as compared to USD 43.5 Bn during 2018.

In terms of type of issuer, MENA corporate bonds witnessed a solid double digit growth of 21.9%, almost equal to the growth seen during 2018, with issuances reaching USD 47.7 Bn in 2019 as compared to USD 37.5 Bn in 2018. On the other hand, MENA government issuances accounted for almost two-thirds of the issuances in the region with total issuances increasing after two consecutive years of decline, reaching USD 87.6 Bn in 2019 as compared to USD 80.9 Bn in 2018.

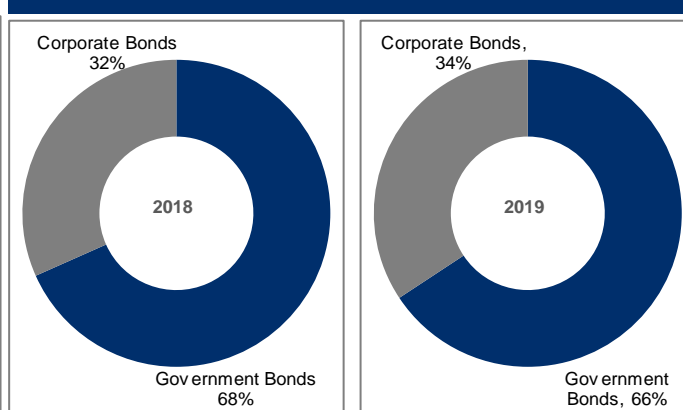
UAE regained its top position in the MENA region in terms of bond issuances in 2019 that reached USD 34.4 Bn as compared to USD 20.4 Bn in 2018. The increase was led by both corporate and government issuers with the former issuing bonds worth USD 23.7 Bn in 2019 vs. USD 20.0 Bn in 2018. UAE government also issued bonds in 2019 totaling USD 10.8 Bn as compared to marginal issuances of USD 0.3 Bn in 2018. The Abu Dhabi government offered a three tranche bond of USD 10 Bn in September that followed a USD 750 Mn offering from Emirates Development Bank in March-19. Qatar was the second biggest issuer with USD 25.4 Bn in total issuance during 2019, a marginal decline from USD 26.0 Bn in 2018. The decline in Qatar was mainly due to a decline in corporate issuances that reached USD 5.1 Bn in 2019 as compared to USD 9.4 Bn in 2018. Qatari government issuances, on the other hand, increased by almost USD 4 Bn to reach USD 20.3 Bn in 2019. Bond issuances in Saudi Arabia, the third largest issuer during 2019, almost doubled to USD 24.8 Bn from USD 13.9 Bn during the previous year. The increase was primarily led by higher corporate issuances that increased from USD 2.0 Bn in 2018 to USD 13.3 Bn in 2019 while government issuances declined marginally to USD 11.5 Bn from USD 11.8 Bn in 2018. During the year Aramco issued bonds worth USD 12.0 Bn in April-19 whereas the Saudi government issued USD 7.5 Bn worth of bonds at the start of the year and an additional USD 3.4 Bn in July-19.

Top Five Sectors by Bond Issuance (USD Bn) - MENA



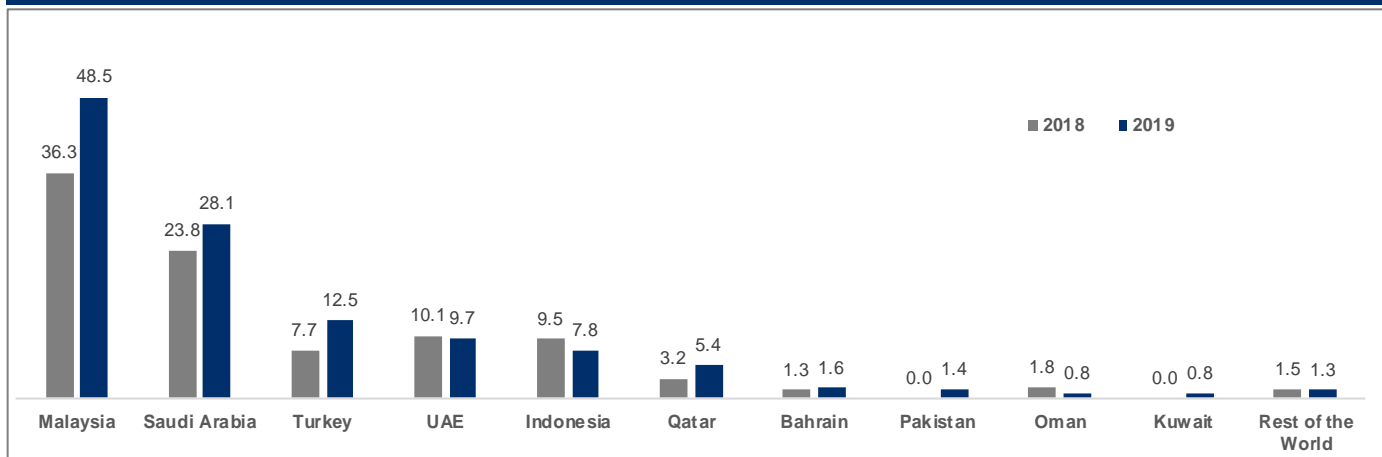
Source: Bloomberg, Kamco Research

Breakdown by Issuer - MENA



Global Sukuk Issuances

Sukuk Issuances (USD Bn) - 2019 vs. 2018



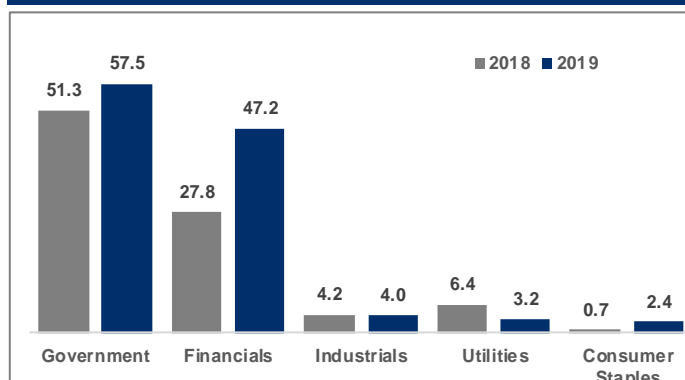
Source: Bloomberg, Kamco Research

Global sukuk issuances once again turned positive in 2019 after recording a decline during 2018. Total global sukuk issuances increased by 24.0% during 2019 to reach USD 117.9 Bn as compared to USD 95.1 Bn during 2018. The strong growth came primarily on the back of a 38.0% increase in issuances by corporates further supported by 12.1% increase in issuances by governments. In terms of individual countries, Malaysia continued to be the top issuer during the year with issuances totaling USD 48.5 Bn during the year as compared to USD 36.3 Bn in 2018. Saudi Arabia was next with sukuk issuances totaling USD 28.1 Bn as compared to USD 23.8 Bn during the previous year. Turkey displaced UAE at the third position with issuances of USD 12.5 Bn followed by UAE at USD 9.7 Bn.

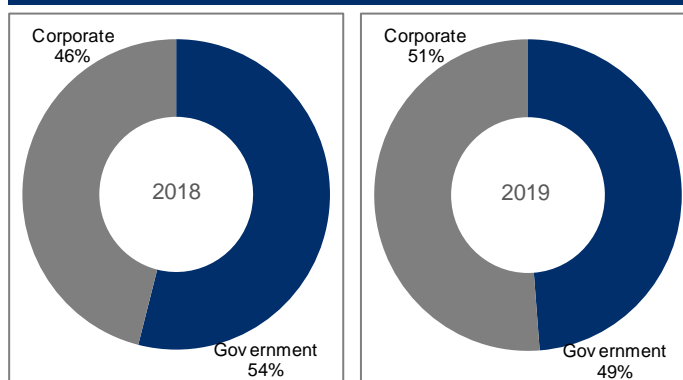
The share of global sukuk issuances during the year was almost equal for government and corporates at 49% and 51%, respectively. Corporate issuances outpaced government issuances for the first time in six years with total issuance of USD 60.4 Bn whereas sovereigns issuances stood at USD 57.5 Bn. Corporate sukuk issuances have also consistently increased for the fourth consecutive year in 2019. However, as compared to the previous high of 2012 where Malaysia dominated corporate sukuk issuances, 2019 saw a much diversified issuance across the globe.

GCC Sukuk issuance stood at USD 46.4 Bn in 2019 as compared to USD 40.1 Bn in 2018, recording a growth of 15.8%. Within the GCC, Qatar recorded the biggest growth in sukuk issuances that increased by 70% to USD 5.4 Bn in 2019 whereas the biggest absolute growth was reported by Saudi Arabia with an increase of USD 4.4 Bn. Sukuk issuance in Kuwait stood at USD 0.8 Bn that came after a break in 2018 with no government or corporate issuance. During the year, KIB issued a perpetual sukuk of USD 300 Mn in June-19 followed by Warba Bank's USD 0.5 Bn sukuk in Sep-19. In terms of type of issuer, GCC governments dominated sukuk issuances during the year that reached USD 31.7 Bn in 2019 vs. USD 26.5 Bn during 2018. GCC corporates had a much marginal growth of USD 1.2 Bn with total sukuk issuances reaching USD 14.8 Bn as compared to USD 13.6 Bn in 2018. In terms of issuance currency, Malaysian Ringgit once again topped with a share of 41% of global sukuk issued and issuances of USD 48.3 Bn denominated in MYR. USD-denominated sukuk was next with issuances totaling USD 28.8 Bn followed by SAR-denominated sukuk of USD 18.4 Bn. In terms of industry split, Sovereigns topped followed by Financial Services issuances at USD 47.2 Bn in 2019, whereas Industrials was distant third at USD 4.0 Bn.

Top Five Sectors by Global Sukuk Issuance (USD Bn)



Breakdown by Global Sukuk Issuers



Source: Bloomberg, Kamco Research

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