

GCC Fixed Income Market : 2020 - The Year That Was...

GCC fixed Income issuances remain almost flat in 2020 after a quiet Dec-2020...

GCC fixed income issuances recorded growth for the second consecutive year and reached another record high during 2020, but the y-o-y growth was marginal as compared to last year. Growth in the region was lower than expected after issuances during December-2020 were marginal with no primarily market bonds or sukuk from the governments in the region and no sukuk issuances from the corporates. Total issuances reached USD 140.3 Bn during the year as compared USD 139.1 Bn during 2019 led by higher issuances of bonds, whereas sukuk issuances remained flat vs. the previous year. Bond issuances reached USD 95.3 Bn in 2020 in the region as compared to USD 94.1 Bn during 2019, recording a y-o-y growth of 1.2%, whereas Sukuk issuances stood at USD 45.0 Bn.

Total fixed income issuances for the MENA region also clocked growth for the second consecutive year and increased by 15.8% to reach USD 211.7 Bn in 2020 as compared to USD 182.9 Bn during the previous year. The y-o-y increase in 2020 was solely led by higher bond issuances in the region, whereas Sukuk issuances remained flat coming only from the GCC region as the five MENA countries (Egypt, Jordan, Lebanon, Morocco and Tunis) continued to stay away from the sukuk market, similar to 2019.

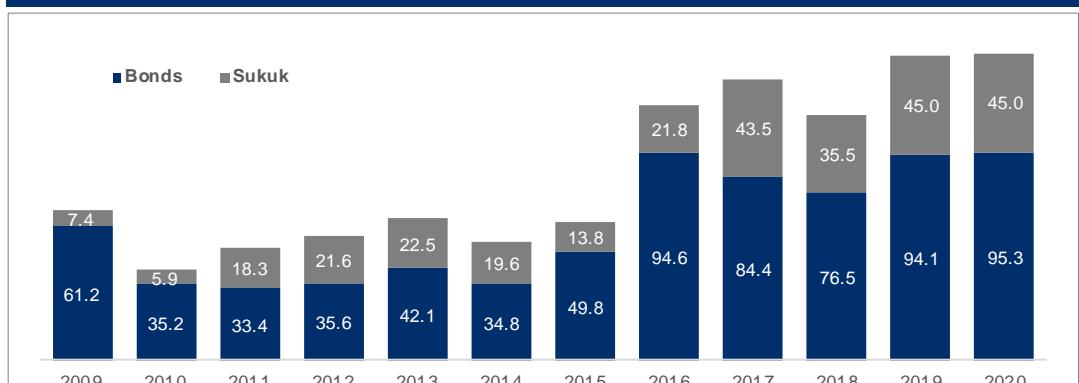
In terms of currency of issuance, USD-denominated bonds topped in the MENA region at USD 96.4 Bn in 2020 as compared to USD 84.2 Bn in 2019. EGP and Moroccan Dirham (MAD) were next with issuances totaling USD 36.4 Bn and USD 8.7 Bn, respectively. For sukuks, USD once again dominated with issuances totaling 21.8 Bn followed by SAR and OMR at USD 21.1 Bn and USD 1.1 Bn, respectively.

Our estimates for 2021 in the GCC shows flat to marginal y-o-y decline in total issuances. Government issuances are expected to decline from the exceptional growth in 2020 due to significantly smaller deficit financing expected next year. On the other hand, corporate issuances are expected to remain strong led by economic revival, better business sentiments and lower rates that would partially or fully offset the overall decline.

Sovereign Credit Ratings

	S&P		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Bahrain	B+	STABLE	B2	STABLE	B+	STABLE
Kuwait	AA-	NEG	A1	STABLE	AA	STABLE
Oman	B+	STABLE	Ba3	NEG	BB-	NEG
Qatar	AA-	STABLE	Aa3	STABLE	AA-	STABLE
Saudi Arabia	A-	STABLE	A1	NEG	A	NEG
UAE	NR	NR	Aa2	STABLE	AA-	STABLE
Abu Dhabi	AA	STABLE	Aa2	STABLE	AA	STABLE

Fixed Income Issuances in GCC (USD Bn)



Source: Bloomberg, Kamco Invest 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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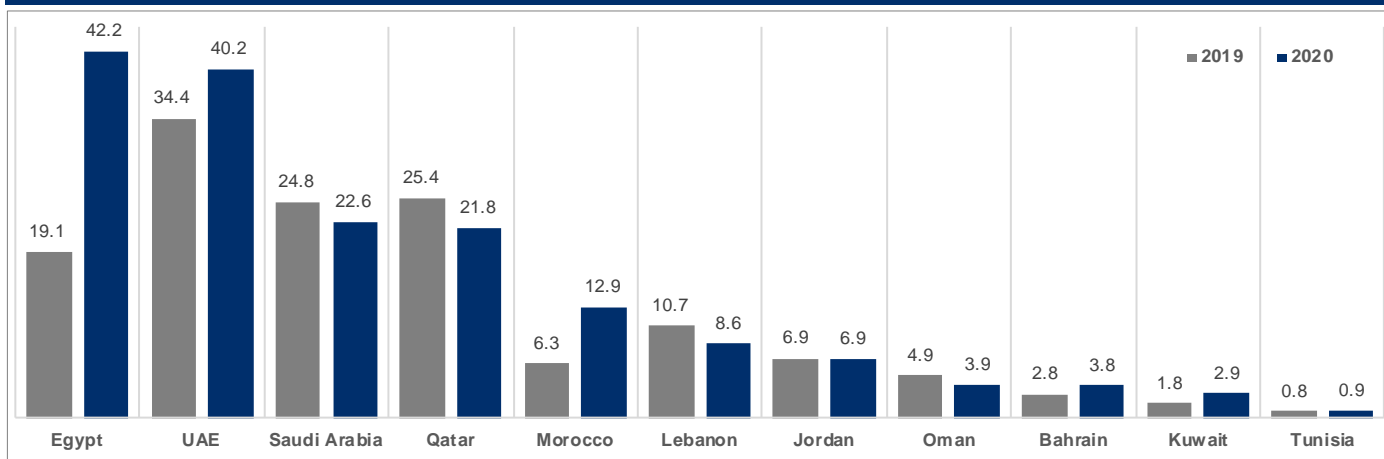
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MENA Bond Issuances

Bond Issuances (USD Bn) - 2019 vs. 2018



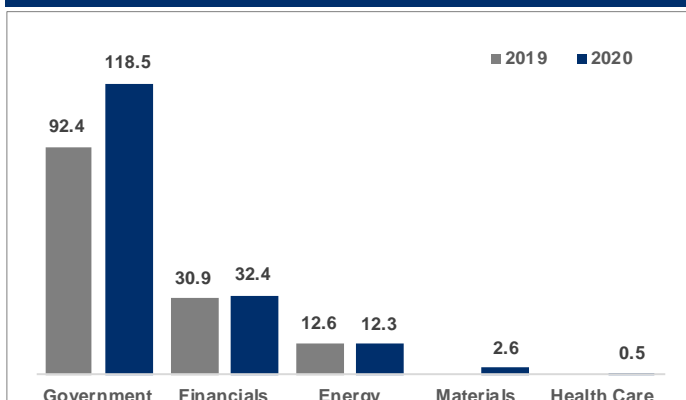
Source: Bloomberg, Kamco Invest Research

Bond issuances in the MENA region increased for the second consecutive year during 2020 to reach a new record high. However, unlike in 2019 where GCC countries dominated yearly bond issuances, 2020 numbers reflected higher participation from the non-GCC countries in the MENA region. Total bonds issued by MENA countries increased by 21.0% to reach USD 166.7 Bn in 2020 as compared to USD 137.8 Bn during 2019. Bond issuances by GCC countries stood at USD 95.3 Bn in 2020 as compared to USD 94.1 Bn in 2019, while non-GCC MENA countries recorded a solid growth of 63.4% with issuances of USD 71.5 Bn in 2020 as compared to USD 43.7 Bn during 2019.

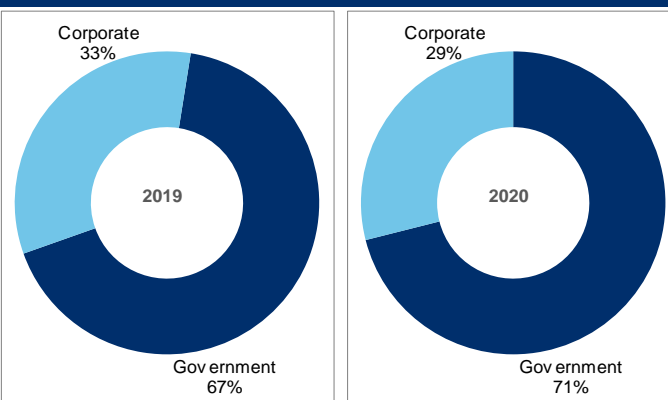
In terms of type of issuer, bonds issued by MENA governments continued to account for the bulk of fixed income issuances during the year. Total bonds issuances by governments increased for the second consecutive year to reach USD 118.5 Bn in 2020 as compared to USD 92.4 Bn in 2019, an increase of 28.1%. On the other hand, Corporate issuances also increased for the fifth consecutive year and reached a new record of USD 48.3 Bn, but the y-o-y growth was the lowest in five years at 6.3% as compared to double digit growth rates seen during the previous four years.

Egypt regained its top position in the MENA region as the top bond issuer in 2020 after four years. Total issuances from the country stood at USD 42.2 Bn in 2020, more than double the issuances in 2019 at USD 19.1 Bn and the entire issuances were from the government. Last year's top issuer, UAE, closely followed with bond issuances totaling USD 40.2 Bn in 2020 as compared to USD 34.4 Bn in 2019. The growth was mainly led by government bonds that reached USD 17.3 Bn in 2020 as compared to USD 10.8 Bn in 2019, while corporate issuances declined marginally to USD 22.9 Bn in 2020 vs. USD 23.7 Bn in 2019. Nevertheless, the UAE continued to remain the biggest primary market for Corporate bonds in the region followed by Qatar and Saudi Arabia. Morocco reported the second biggest absolute growth in issuances at USD 6.6 Bn with total issuances reaching USD 12.9 Bn, more than double the issuances from the country in 2019. On the other hand, Saudi Arabia and Qatar reported y-o-y decline in issuances in 2020. Bond issuances by Saudi Arabia declined by 8.8% to reach USD 22.6 Bn in 2020, whereas total issuances from Qatar stood at USD 21.8 Bn, a decline of 13.9% vs. 2019. In terms of sectors, Financial Institutions continued to report higher issuances for the fifth consecutive year reaching USD 32.4 Bn in 2020 followed by companies in the Energy and Materials sector with issuances totaling USD 12.3 Bn and USD 2.6 Bn, respectively.

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



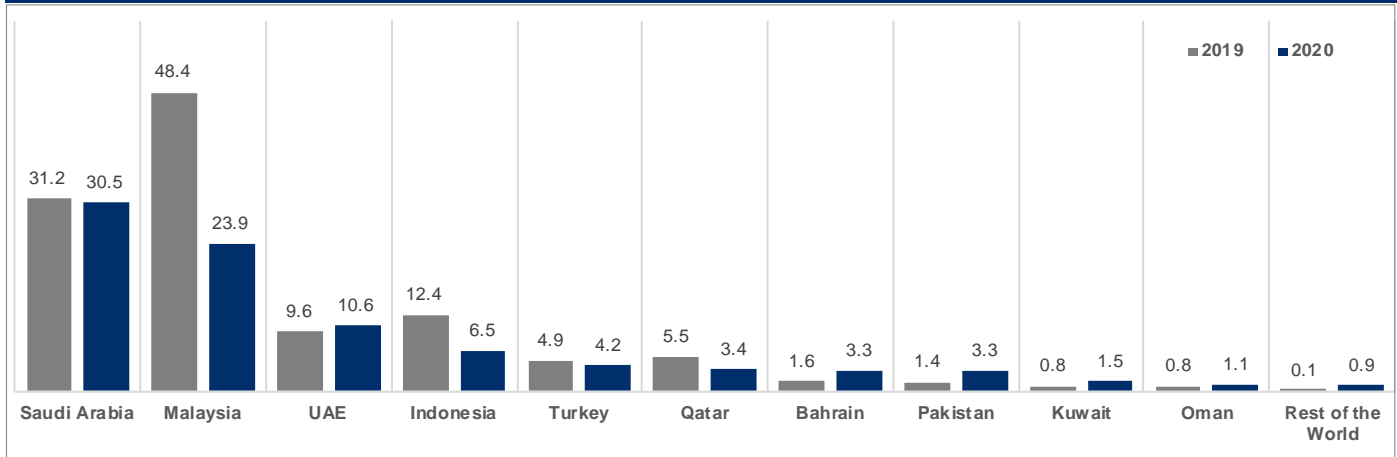
Bonds Issued - Breakdown by Issuer - MENA



Source: Bloomberg, Kamco Invest Research

Global Sukuk Issuances

Sukuk Issuances (USD Bn) - 2019 vs. 2020

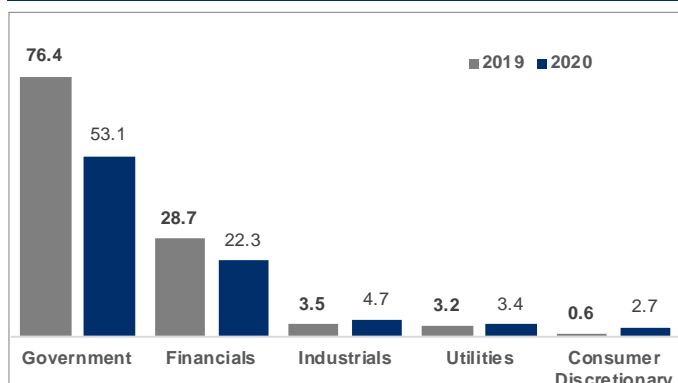


After witnessing impressive growth in 2019, global sukuk issuances witnessed a steep decline of almost a quarter during 2020. Total issuances stood at USD 89.2 Bn in 2020 as compared to USD 116.8 Bn in 2019. The decline came primarily on the back of a decline in new issuances from four out of top five Islamic issuers globally. In terms of individual countries, Malaysia was, for the first time on record, displaced as the top Islamic issuer in the world by Saudi Arabia (including SNAT issuers). The Kingdom topped the year with issuances totaling USD 30.5 Bn as compared USD 31.1 Bn in 2019, a marginal y-o-y decline of 2.1%. Malaysia reported the biggest decline among the top countries with total issuances more than halving to USD 23.9 Bn as compared to USD 48.4 Bn during 2019. UAE followed with total issuances of USD 10.6 Bn during the year vs. USD 9.6 Bn in 2019, displacing Indonesia as the third biggest issuer of Islamic instruments. The latter also reported steep decline of 47.9% in 2020 to report total issuances of USD 6.5 Bn as compared to USD 12.4 Bn during 2019.

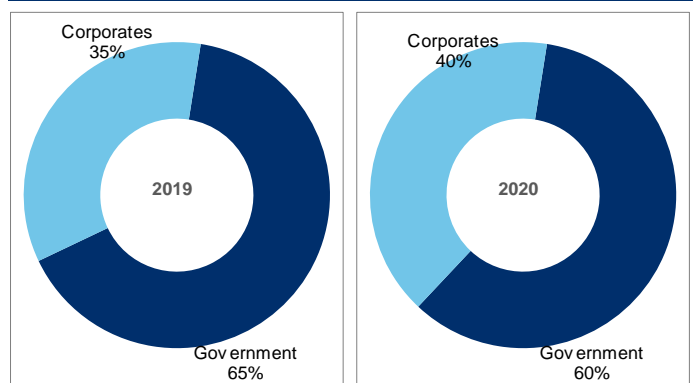
Government issuers continued to account for the bulk of sukuk issuances during the year, but its share declined from 65.4% in 2019 to 59.5% in 2020. Total issuances from governments stood at USD 53.1 Bn in 2020 as compared to USD 76.4 Bn in 2019, a decline of 30.5%. Corporates, on the other hand, reported a smaller y-o-y decline of 10.5% during the year with issuances of USD 36.1 Bn in 2020 as compared to USD 40.4 Bn in 2019. The decline by corporate sukuk issuers comes after four consecutive years of growth until 2019.

GCC Sukuk issuances remained flat y-o-y during 2020 at USD 45.0 Bn after showing an impressive growth of 24.2% during 2019. However, including issuances by supra national (SNAT) entities that are essentially based in Saudi Arabia, i.e. IDB Trust Services and ICDPS, total issuances from the GCC increased marginally by 2.0%. The two SNATs reported sukuk issuances of USD 5.5 Bn during 2020 vs. USD 4.5 Bn in 2019. Within the GCC, Bahrain recorded the highest y-o-y growth in sukuk issuances that more than doubled to USD 3.3 Bn in 2020 as compared to USD 1.6 Bn in 2019. During the year, the CBB issued USD sukuk of USD 2 Bn in two tranches of USD 1 Bn each with a tenor of 4.5 years and 7 years. UAE, Kuwait and Oman also reported higher issuances during 2020. On the other hand, Qatar reported the biggest decline during the year at -37.4% with issuances of USD 3.4 Bn as compared to USD 5.5 Bn in 2019. The decline came as the Qatari government did not issue any sukuks during the year as compared to issuances of USD 3.0 Bn during 2019.

Top Five Sectors by Global Sukuk Issuance (USD Bn)



Breakdown by Global Sukuk Issuers



Source: Bloomberg, Kamco Invest Research

US & MENA Rates

The severe economic impact of Covid-19 in 2020 forced governments across the world to cut rates in order to provide liquidity and motivation for investments and support economic activity by keeping credit flowing. Rate cuts by the US Fed that started in 2019 continued in 2020 but this time it reflected the impact of the pandemic as against its previous stance to reverse the hikes in the earlier years. The US Fed lowered its funds rate by 150 basis points in March-2020 to a near zero range 0% - 0.25%. Recent updates from the US indicated that rates are expected to remain low and near zero in the near term through at least until 2023 until the economy shows substantial progress. A quarterly review of monetary policy by Bloomberg that covers 90% of global economies showed that central banks globally are expected to maintain loose monetary policy this year. Emerging Market economies like China, India and Russia are expected to cut interest rates even further this year. According to the report, the uncertainty related to the Covid-19 virus coupled with high unemployment and weak inflation are the key reasons to keep the rates low.

GCC - Key Central Bank Rates vs. US Fed Fund Rate							
Dates	Kuwait CB Disc Rate	UAE Repo Rate	KSA Repo Rate	Bahrain ON Repo Rate	Qatar Repo Rate	Oman CBO Repo Rate	US Fed Fund Rate
Dec-17	2.75	1.75	2.00	3.50	2.50	2.06	1.25 - 1.5
Dec-18	3.00	2.75	3.00	4.50	2.50	3.01	2.25 - 2.5
Dec-19	2.75	2.00	2.25	4.00	2.00	2.28	1.5 - 1.75
Dec-20	1.50	0.60	1.00	2.25	1.00	0.50	0 - 0.25
1-Yr Change (%)	-1.25	-1.40	-1.25	-1.75	-1.00	-1.78	-1.5
2-Yr Change (%)	-1.50	-2.15	-2.00	-2.25	-1.50	-2.51	-2.25

Source: US Federal Reserve, Central Bank of Kuwait, Bloomberg

Central banks in the GCC also lowered benchmark rates by varying levels ranging from 100 bps to 175 bps in 2020. While Kuwait's central bank lowered its discount rate by 125 bps, in line with Saudi Arabia's repo rate, Qatar's repo rate was lowered by 100 bps while its overnight lending rate was slashed by 175 bps.

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