GCC Fixed Income Market : *2021 - The Year That Was…*

GCC govt. issuances drop as oil gains; Corporate issuances remain strong…

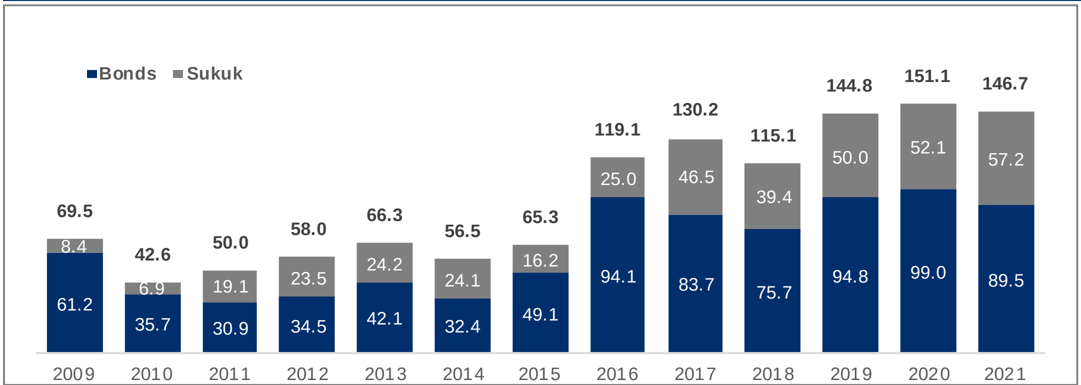
After recording growth in issuances for two consecutive years, GCC bonds and sukuk issuances declined during 2021. As expected, the decline was led by lower government issuances for two years in a row, whereas corporate issuances witnessed increase for the sixed consecutive year. *Crude oil prices that averaged at a three-year high level of USD 70.9/b was one of the key reasons for the decline in government issuances during 2021. On the other hand, a recovering economy post the lifting of restrictions related to Covid-19 encouraged investments by the private sector that resulted in a growth in issuances during the year.*

In terms of type of instrument, sukuk issuances increased for the third consecutive year to reach the highest on record at USD 57.2 Bn in 2021 as compared to USD 52.1 Bn in 2020 in the GCC. On the other, bond issuances declined for the first time since 2018 to reach USD 89.5 Bn in 2021 as compared to USD 99.0 Bn in 2020. Total issuances in the GCC reached USD 146.7 Bn during 2021 as compared to USD 151.1 Bn in 2020.

Total fixed income issuances for the MENA region also clocked growth for the third consecutive year to reach a record high of USD 233.2 Bn. However, the y-o-y growth was much smaller at 6.4% as compared to double digit growth seen during the previous two years. *The y-o-y increase in MENA issuances in 2021 was solely led by a significant increase in sukuk issuances in the region, further supported by low-single digit increase in bond issuances.* ***In terms of currency of issuance, USD-denominated bonds topped in the MENA region, although its share declined from USD 118.6 Bn or 54.1% in 2020 to USD 100.2 Bn or 43.0% in 2021. Egyptian Pound and Saudi Riyal were next with issuances totaling USD 52.9 Bn and USD 34.0 Bn accounting for 22.7% and 14.6% of total issuances in 2021, respectively.***

For 2022, we once again expect a small decline in total issuances in the GCC. Government issuances are expected to decline due to elevated oil prices and lower financing needs for social spending, whereas higher expected interest rates could also impact the growth in corporate issuances during the year.

Fixed Income Issuances in GCC (USD Bn)



Sovereign Credit Ratings

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

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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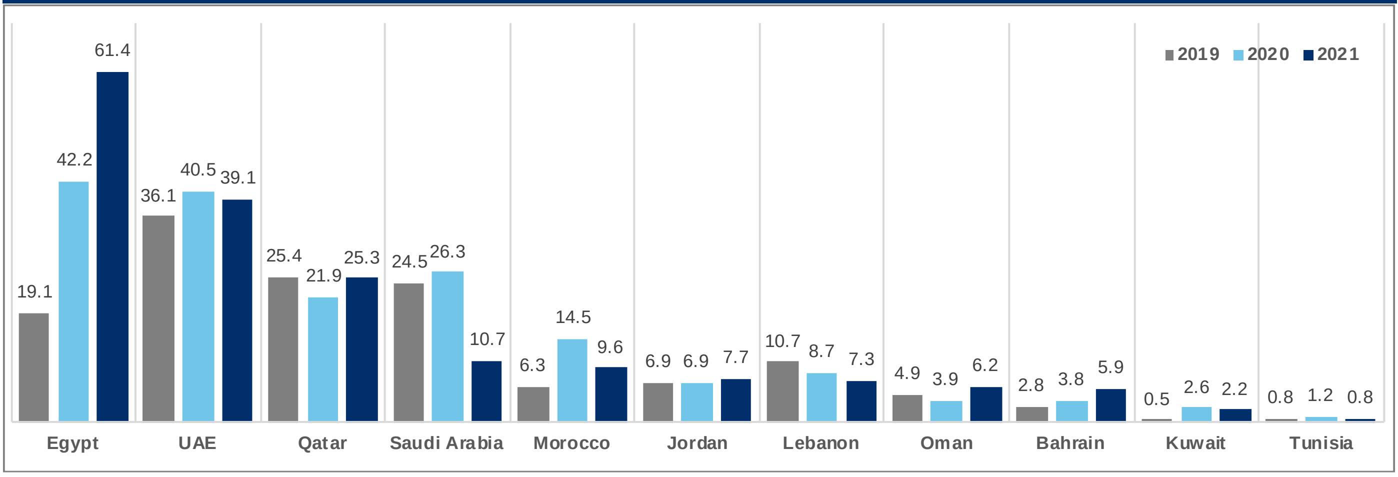
MENA Bond Issuances

Bond Issuances (USD Bn)



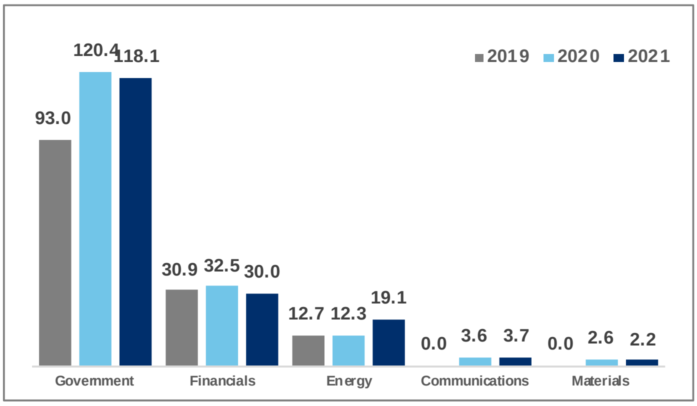
Source: Bloomberg, Kamco Invest Research

Bond issuances in the MENA region increased for the third consecutive year during 2021 to reach a new record high. Total bonds issued by MENA countries increased by 2.2% to reach USD 176.2 Bn in 2021 as compared to USD 172.4 Bn during 2020. The growth in issuances was mainly driven by Egypt that reported record high government bond issuances during the year. Bond issuances by GCC countries stood at USD 89.5 Bn in 2021 as compared to USD 99.0 Bn in 2020, while non-GCC MENA countries recorded a growth of 18.1% with issuances of USD 86.7 Bn in 2021 as compared to USD 73.4 Bn during 2020.

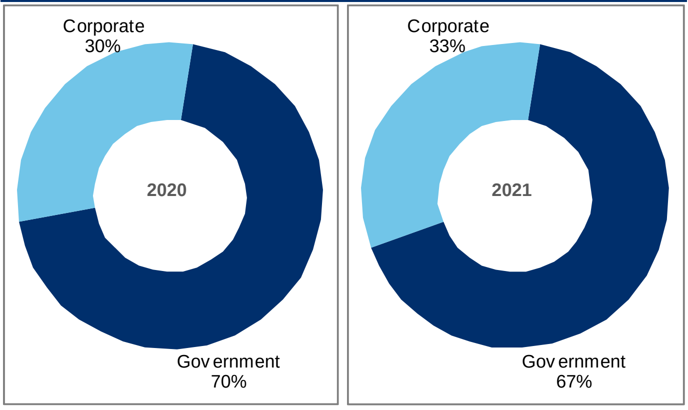
In terms of type of issuer, bonds issued by MENA governments continued to account for the bulk of fixed income issuances during the year. However, total government issuances declined during the year by 1.9% to USD 118.1 Bn that was more than offset by an 11.7% increase in corporate issuances in the region. The decline in government issuances was led by a drop in issuance from GCC governments. On the other hand, non-GCC government issuances were up 16.3% to USD 84.8 Bn in 2021 as compared to USD 73.0 Bn in 2020. Corporate issuances from non-GCC corporates also witnessed an increase, although it remained marginal at USD 2.0 Bn in 2021 vs. USD 0.5 Bn in 2020. Corporate issuances from the GCC was also up 9.0% to reach USD 56.2 Bn in 2021 vs. USD 51.5 Bn in 2020.

Egypt was once again the top bond issuer in the MENA region for the second consecutive year. Total issuances from the country stood at USD 61.4 Bn in 2021 as compared to USD 42.2 Bn in 2020, registering an increase of 45.6%. Moreover, the bulk of the issuances were from the government and merely USD 474 Mn in three bond issuances were from corporates in Egypt. This included USD 450 Mn of bond from Energean PLC. The government in Egypt was also the first government in the region to issue green bonds during 2021 with its USD 750 Mn 5-year bond. Post the marathon bond issuances, Egypt is set to join the JP Morgan Government Bond EM Index this year. The government is also finalizing the regulations to issue a sovereign sukuk worth USD 2 Bn this year. UAE was next with bond issuances totaling USD 39.1 Bn in 2021 as compared to USD 40.5 Bn in 2020. The marginal decline was mainly due to a fall in government bonds from USD 17.3 Bn in 2020 to USD 11.0 Bn in 2021. This was partially offset by an increase in corporate bonds from USD 23.2 Bn in 2020 to USD 28.1 Bn in 2021. Qatar was third in the region with a y-o-y increase in bond issuances that reached USD 25.3 Bn in 2021.

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



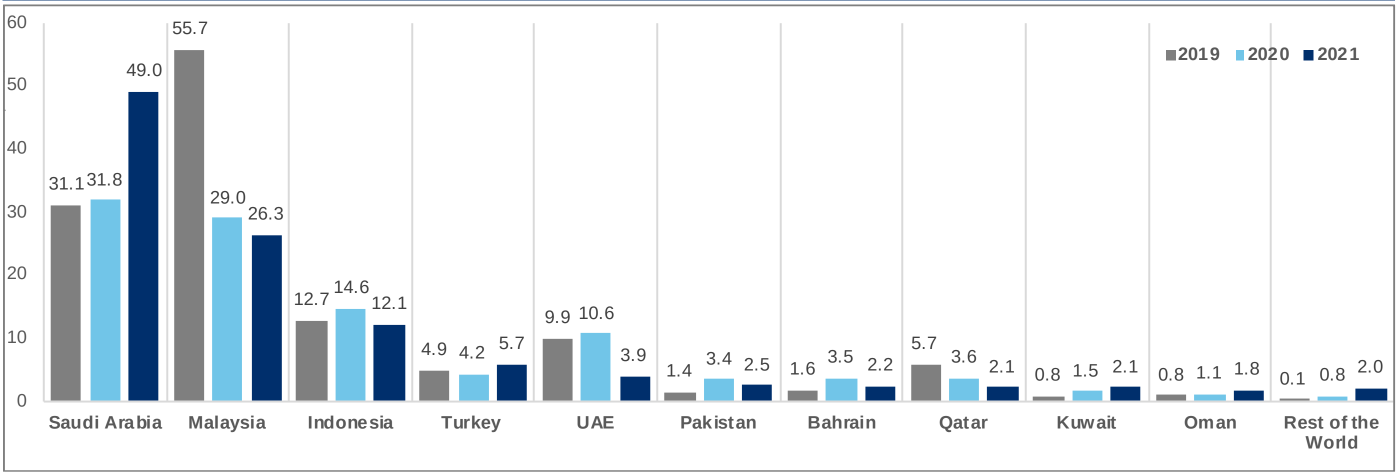
Bonds Issued - Breakdown by Issuer - MENA



Source: Bloomberg, Kamco Invest Research

Global Sukuk Issuances

Sukuk Issuances (USD Bn)



Source: Bloomberg, Kamco Invest Research

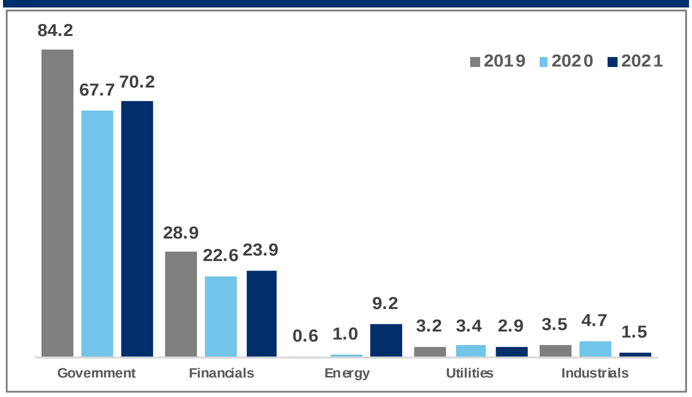
Global sukuk issuances witnessed a partial recovery in 2021 after witnessing a steep decline in issuances in 2020. Total issuances during the year stood at USD 109.7 Bn in 2021 as compared to USD 104.2 Bn in 2020 and significantly below 2019 issuances that was at USD 124.8 Bn. The increase was mainly driven by higher issuances from GCC countries while non-GCC prominent issuers like Malaysia and Indonesia recorded declines. In terms of type of issuer, both government and corporate issuers increased issuances during 2021 after posting declines in 2020.

In terms of individual countries, Malaysia ranked second for two years in a row toppled by Saudi Arabia in terms of size of sukuk issuances, including supranational issuers. The Kingdom topped the year with a steep increase in issuances totaling USD 49.0 Bn as compared USD 31.8 Bn in 2020, an increase of 54.2%. Issuances from Malaysia stood at USD 26.3 Bn in 2021 as compared to USD 29.0 Bn in 2020. Issuances from Malaysia more than halved from 2019 levels. Indonesia was third with issuances totaling USD 12.1 Bn in 2021, registering a decline of 17.1% vs. 2020. Higher sukuk issuances were also recorded by Turkey, Kuwait and Oman during 2021. Qatar and Bahrain, on the other hand, registered a decline in sukuk issuances during the year.

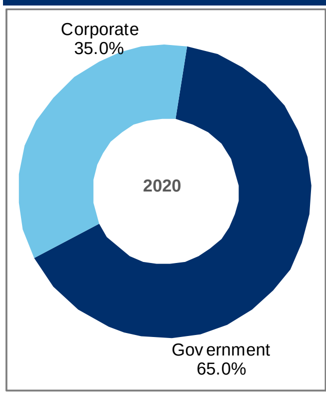
Government issuers continued to account for the bulk of sukuk issuances during the year, but its share declined marginally from 65% in 2020 to 64% in 2021. Total issuances from governments stood at USD 70.2 Bn in 2021 as compared to USD 67.7 Bn in 2020, an increase of 3.7%. Corporates, on the other hand, reported a much bigger y-o-y increase of 8.2% during the year with issuances of USD 39.5 Bn in 2021 as compared to USD 36.5 Bn in 2020. Both government and corporate issuers in the GCC reported higher sukuk issuances during the year. Total government sukuk issuances during 2021 stood at USD 35.3 Bn vs. USD 32.0 Bn in 2021. The growth was mainly led by higher issuances from Saudi Arabia, Qatar and Omani governments. On the corporate side, the aggregate growth in the GCC was 8.5% from USD 20.2 Bn in 2020 to USD 21.9 Bn in 2021.

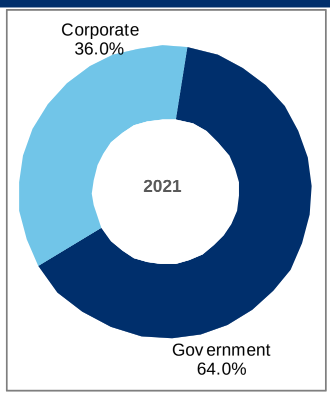
In terms of currency of issuance, USD continued to dominate with issuances worth USD 34.6 Bn in 2021 vs. USD 31.1 Bn in 2020. Saudi Riyal was a close second with issuances totaling USD 34.0 Bn in 2021 vs. USD 22.5 Bn in 2020. Malaysian Ringgit was next with issuances of USD 23.9 Bn in 2021 vs. USD 28.6 Bn in 2020.

Top Five Sectors by Global Sukuk Issuance (USD Bn)



Breakdown by Global Sukuk Issuers





Source: Bloomberg, Kamco Invest Research

US & GCC Rates

Interest rates remained stable in 2021 after being lowered to historical lows in 2020 amid the pandemic in order to support economic growth. However, the availability of cheap funding creeped into inflation rates that reached decades high level in the region as well as globally. In order to contain prices, the US Fed announced an extraordinary quicker tapering aimed at accelerated monetary tightening. The FOMC also said it would double the pace of asset purchase program and aims to complete the program by an earlier-than-expected deadline of March-2022. The updated dot-plot post the FOMC meeting now shows an aggressive rate hike path with a likelihood of three rate hikes in 2022, another three in 2023 followed by two rate hikes in 2024. Another unexpected announcement came from the Bank of England that raised interest rates for the first time since the pandemic. The BoE was the first significant global central banks to announce an increase in borrowing costs by 15 bps to 0.25%. The reason for the earlier-than-expected rate hike was once again rising inflation which is expected to peak around April-2022 at 6%.

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-20	1.50	0.10	1.00	2.25	1.00	0.50	0 - 0.25
Dec-21	1.50	0.15	1.00	2.25	1.00	0.50	0 - 0.25
1-Yr Change (%)	0.00	0.05	0.00	0.00	0.00	0.00	0
2-Yr Change (%)	-1.25	N/A	-1.25	-1.75	-1.00	-1.78	-1.5

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

A government-led issuances decline expected in 2022

The outlook for 2022 shows central banks remaining divergent in their approach to tackle economic issues. On one side, banks are expected to remain focused on containing inflation by way of monetary tightening and on the other there are economies that need further support are expected to maintain the lose monetary policy. According to Bloomberg, the bulk of the global economies are expected to go for a rate hike this year following Fed's footsteps. Countries in central and eastern Europe, on the other hand, may lower rates. China is one key economy that is expected to slash rates in order to support growth after a housing crisis and slowing growth, as was hinted by a government official last month. The GCC central banks are largely expected to follow the US Fed because of the currency pegs. The pressure on currency pegs, as seen from forward rates of GCC currencies, remains at historical average levels after peaking during mid-last year.

For fixed income issuances in 2022, we expect to see a similar trend in the region during 2022 with a decline in sovereign issuances being partly offset by an increase in corporate issuances. Saudi Arabia, in its recent budget statement, indicated a drop in issuances this year that would be aimed at refinancing maturing debts. UAE government issuances are also expected to decline in 2022 mainly due to the fast paced privatization through equity listings announced by both Abu Dhabi and Dubai governments. This, along with elevated oil prices, are expected to lower new fixed income issuances by the UAE in 2022. Qatar, with its stable fiscal surplus position, is expected to further strengthen its fiscal position as demand for natural gas remains high while the country adds capacity. Funding needs are expected to be mainly linked to expanding capacity. Kuwait's motivation to pass the debt law has once again taken a back seat due to elevated oil prices, although balancing budget remains a priority.

On the other hand, a recovering economy and increasing consumer confidence provides incentives for the private sector to issue debt for expansion, including participation in government projects via the PPP model. The trend is expected to continue in 2022 resulting in slightly higher corporate issuance during the year vs. 2021. However, this increase is expected to only partially offset the decline by government issuers, expected next year.

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