

GCC Fixed Income Market : 2022 - The Year That Was...

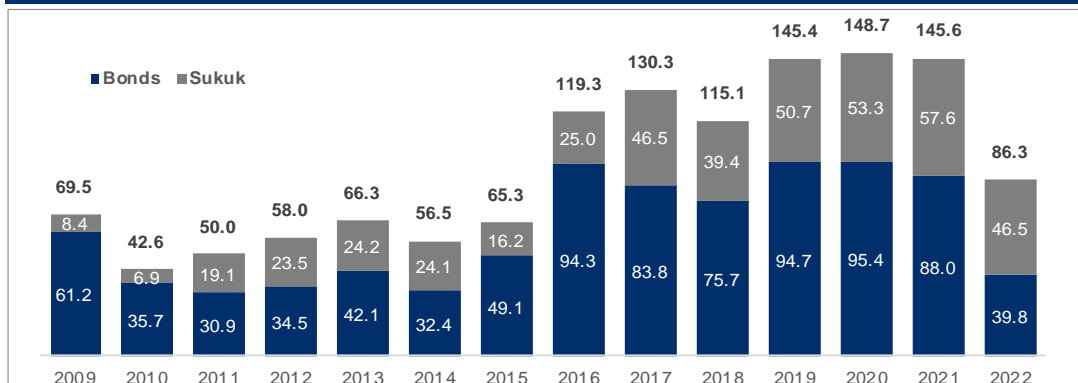
Bond market sees biggest rout since at least 1990...

Persistent inflation and rising interest rates across the globe sent bond markets tumbling resulting in the biggest decline in the benchmark since at least 1990. Geopolitical tensions surrounding the Russia/Ukraine war also affected markets during the year. The Bloomberg Aggregate global IG bond index dropped by 16.3% during 2022 and it was the first time that the index has declined for two consecutive years after the 4.7% decline in 2021. The year 2022 witnessed central banks raising borrowing costs by the most in four decades in order to tame inflation that reached unprecedented levels following the loose monetary policy implemented in 2020 and 2021 aimed at providing a boost to business activity after the Covid-19 pandemic. The yield on 10-year US treasury bonds shot up from 1.5% at the end of 2021 to 3.9% at the end of 2022, the biggest annual increase since at least 1962.

Moreover, it was one of the exceptional years when both the bond market and the equity markets witnessed declines. A report from FT showed that stocks and bonds lost around USD 35 Trillion in value during 2022. In terms of type of instruments, high yield bonds outperformed safer bonds with a relatively smaller decline. Moreover, sukuk witnessed the smallest decline of around 10.8%. In terms of regional performance, MENA bonds and sukuk outperformed global benchmarks with smaller declines during the year mainly reflecting continued strong economic growth, elevated crude oil prices and relatively low inflation.

The robust fiscal performance in the MENA region was also reflected in the primary bond and sukuk market in the region that witnessed one of the biggest y-o-y declines on record. Aggregate fixed income issuances in the MENA region declined for the first time in three years to reach USD 115.2 Bn in 2022 as compared to USD 236.5 Bn in 2021, a decline of USD 120.3 Bn or 51.3%. Government issuances witnessed a bigger decline of USD 86.7 Bn or 55.3% to reach USD 70.1 Bn as compared to corporate issuances that dropped by USD 34.1 Bn or 43.1% to reach USD 45.1 Bn. Fixed income issuances in the GCC dropped to the lowest in seven years to reach USD 86.3 Bn 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+	POS	B2u	STABLE	B+	STABLE
Kuwait	A+	STABLE	A1	STABLE	AA-	STABLE
Oman	BB	STABLE	Ba3	POS	BB	STABLE
Qatar	AA	STABLE	Aa3	POS	AA-	STABLE
Saudi Arabia	A-u	POS	A1	STABLE	A	POS
UAE	NR	NR	Aa2	STABLE	AA-	STABLE
Abu Dhabi	AA	STABLE	Aa2	STABLE	AA	STABLE

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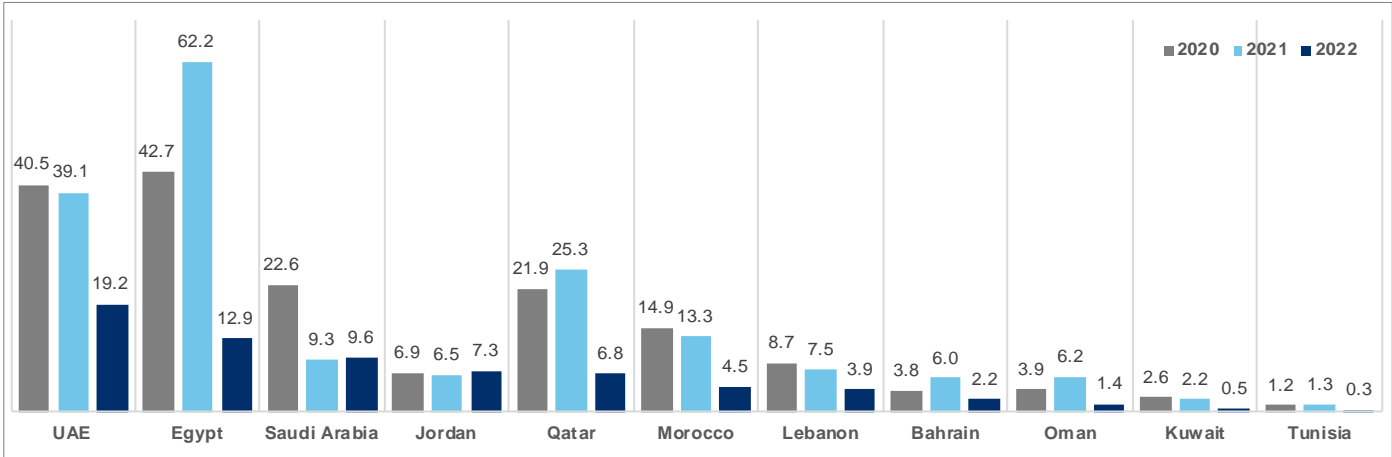
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Source: Bloomberg, Kamco Invest Research

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.

MENA Bond Issuances

Bond Issuances (USD Bn)



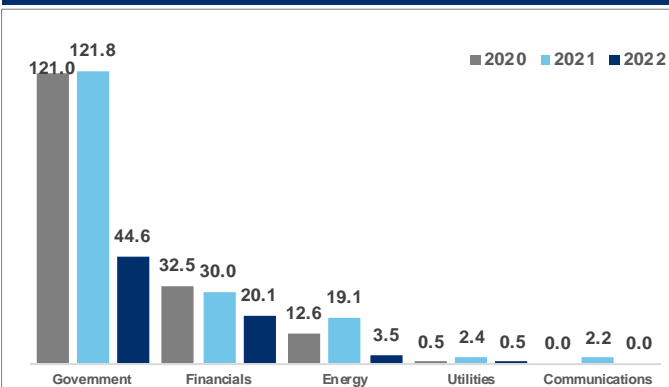
Source: Bloomberg, Kamco Invest Research

After three consecutive years of increases, bond issuances in the MENA region declined during 2022. Total issuances reached USD 68.7 Bn during the year, a decline of 61.6% or USD 110.2 Bn as compared to record issuances during 2021 which stood at USD 178.8 Bn. The decline in issuances was mainly driven by Egypt that reported total issuances of USD 12.9 Bn in 2022 as compared to record high issuances of USD 62.2 Bn during the previous year. Bond issuances by GCC countries declined for the second consecutive year owing to lower issuances from both governments as well as corporates mainly led by elevated oil prices as well as strong corporate profitability that led to lower funding requirements. Aggregate bond issuances in the GCC stood at USD 39.8 Bn in 2022 as compared to USD 88.0 Bn in 2021, while non-GCC MENA countries recorded a steeper decline with issuances of USD 28.9 Bn in 2022 as compared to USD 90.8 Bn during 2021.

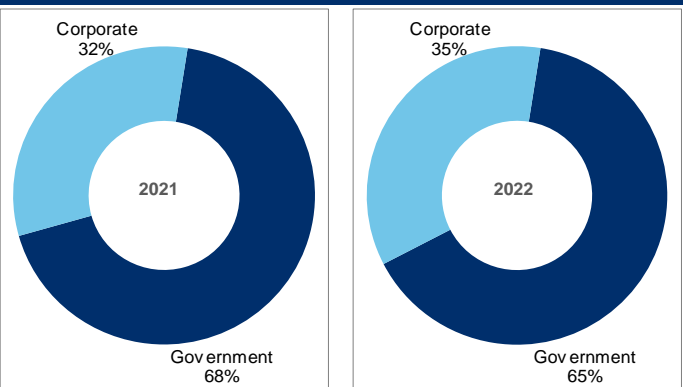
In terms of type of issuer, bonds issued by MENA governments continued to account for the bulk of fixed income issuances during the year. However, the share of governments in total issuances declined for the second consecutive year to 64.9% in 2022 as compared to 68.1% in 2021. In addition, total government issuances witnessed a steep decline during the year by 63.4% to reach USD 44.6 Bn while issuances from corporates dropped by 57.7% to reach USD 24.1 Bn. The decline in government issuances was broad-based with only Jordan seeing higher government issuances during the year while the rest of the governments in the MENA region reported declines. In terms of corporate issuances, Saudi Arabia was the only prominent country to show sizeable growth in bond issuances that reached USD 4.0 Bn in 2022 as compared to USD 0.1 Bn during 2021. Lebanon, Jordan and Bahraini corporates also reported higher bond issuances during the year that was more than offset by decline in the rest of the MENA countries.

UAE regained its top spot in terms of bond issuances in the MENA region with aggregate issuances of USD 19.2 Bn as compared to USD 39.1 Bn during 2021. Egypt and Saudi Arabia followed with issuances of USD 12.9 Bn and USD 9.6 Bn, respectively. UAE also topped the corporate issuances chart in the region with issuances totaling USD 12.6 Bn followed by Qatar and Saudi Arabia with bond issuances of USD 4.1 Bn and USD 4.0 Bn, respectively. Government bond issuances in the region was topped by Egypt with only the Egyptian government tapping the bond market during the year (no corporate issuances) with issuances at USD 12.9 Bn followed by Jordan and UAE at USD 6.6 Bn and USD 6.5 Bn, respectively.

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



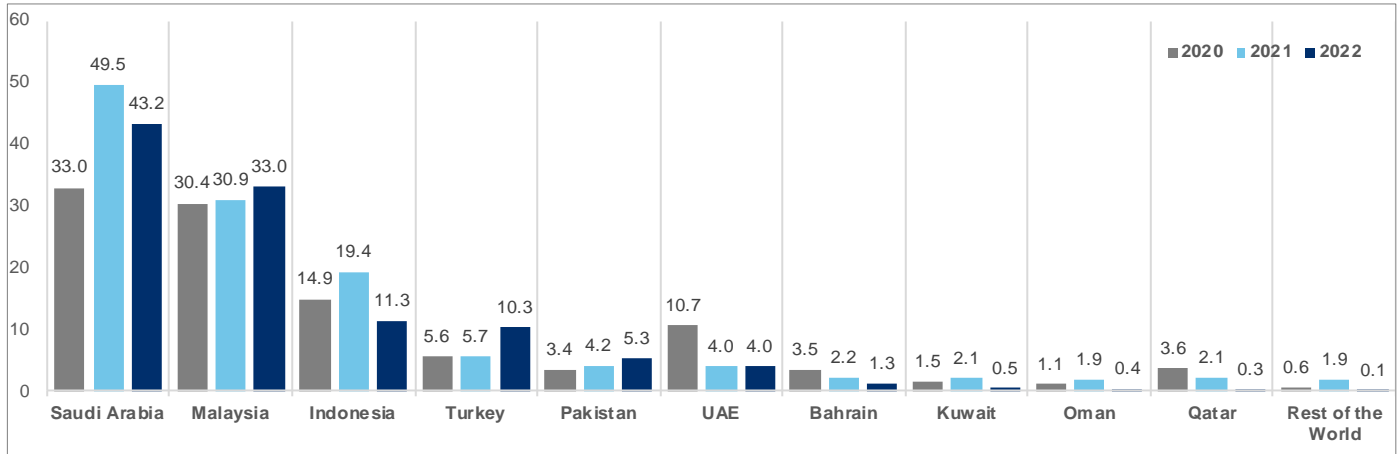
Bonds Issued - Breakdown by Issuer - MENA



Source: Bloomberg, Kamco Invest Research

Global Sukuk Issuances

Sukuk Issuances (USD Bn)



Source: Bloomberg, Kamco Invest Research

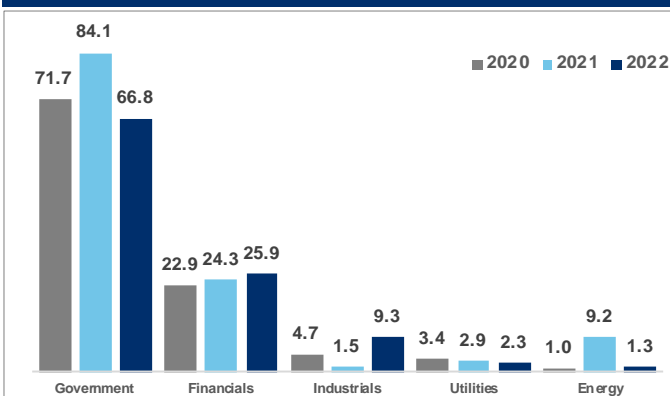
Global sukuk issuances once again witnessed a decline during 2022 after showing a partial recovery in 2021. Total sukuk issuances during the year stood at USD 109.7 Bn in 2022 as compared to USD 123.8 Bn in 2021. The decline was seen in both GCC and non-GCC issuers. However, GCC issuers reported a steeper decline of USD 12.2 Bn or 19.7% with total sukuk issuances reaching USD 49.7 Bn in 2022. Moreover, for the first time on record, the share of sukuk in total fixed income issuances in the GCC was higher than bonds at 53.9% while bonds accounted for 46.1% of total issuances. Non-GCC sukuk issuances stood at USD 60.1 Bn after a marginal decline of 3.1% or USD 1.9 Bn during the year.

In terms of individual countries, Saudi Arabia ranked first globally with the biggest sukuk issuance for the third consecutive year. However, sukuk issuances in the Kingdom declined by 12.7% or USD 6.3 Bn to reach USD 43.2 Bn during the year as compared to USD 49.5 Bn in 2021. Malaysia ranked second, also for the third consecutive year, with issuances reaching USD 33.0 Bn in 2022, an increase of USD 2.2 Bn or 7.1% from the previous year. Indonesia was third with issuances totaling USD 11.3 Bn in 2022, registering a decline of 41.5% vs. 2021. Higher sukuk issuances were also recorded by Turkey and Pakistan during 2022.

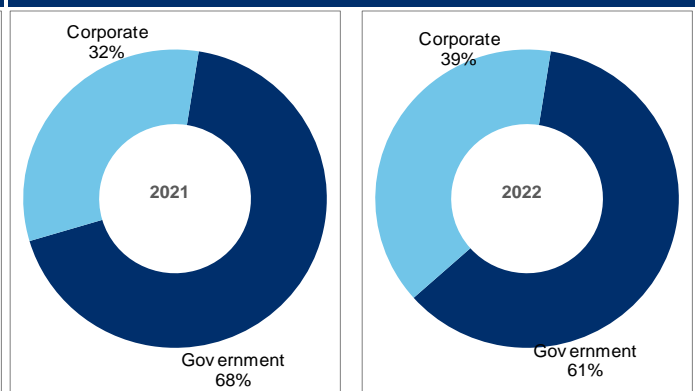
In terms of type of issuers, governments and its agencies continued to account for the bulk of the sukuk issuances globally during the year, but the overall share witnessed a decline from 68% in 2021 to 61% in 2022. Total issuances from governments stood at USD 66.8 Bn in 2022 as compared to USD 84.1 Bn in 2021, a decline of 20.5%. Corporates, on the other hand, reported higher issuances for the second consecutive year to reach USD 42.9 Bn in 2022 as compared to USD 39.7 Bn during 2021.

Both government and corporate issuers in the GCC reported a decline in sukuk issuances during the year. Total government sukuk issuances during 2022 stood at USD 29.5 Bn vs. USD 35.4 Bn in 2021. The decline was led by a drop in issuances mainly in Saudi Arabia, Qatar, Oman and Bahrain. On the corporate side, all countries in the GCC reported a decline in sukuk issuances during the year.

Top Five Sectors by Global Sukuk Issuance (USD Bn)



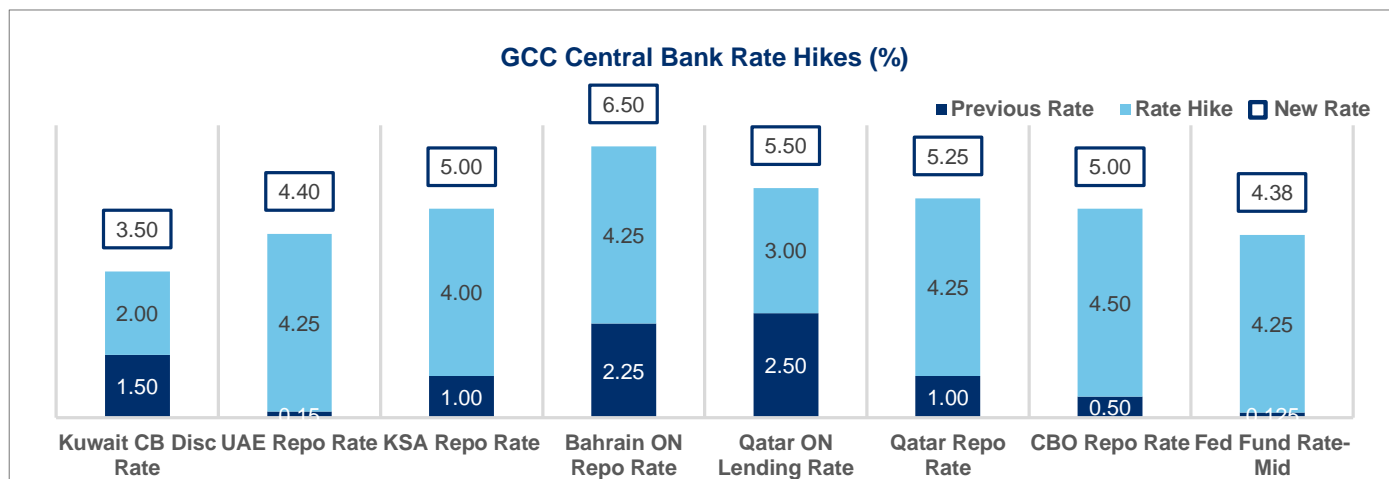
Breakdown by Global Sukuk Issuers



Source: Bloomberg, Kamco Invest Research

US & GCC Rates

The year 2022 witnessed record levels of interest rate hikes globally that was aimed at controlling consumer prices. The rate hikes were also aimed at cooling down economic growth that would further help in controlling inflation. In the US, wage growth and robust employment numbers resulted in elevated consumer prices and the trend continues as we speak. This has resulted in hawkish policies by the US Fed that was followed by most major central banks across the globe.



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

The US Fed raised policy rates at one of the fastest pace on record by 425 bps during 2022 to a mid point of 4.38%. These hikes were almost fully replicated by GCC central banks mainly due to the pegged currencies. Kuwait was an exception in the GCC as the Kuwaiti Dinar is pegged to a basket of currencies. Moreover, due to minimal fiscal pressure and robust economic growth, the Central Bank of Kuwait (CBK) followed a more gradual rate hike path during the year with a total increase of 200 bps to the discount rate that reached 3.5% by the end of the year.

Inflation trend would determine bond market activity in 2023

The latest Survey of Consumer Expectations in the US as of December-2022 showed median year-ahead inflation expectations falling to 5.0%, the lowest since July-2021, as compared to 5.2% in the November-2022 survey. In terms of interest rates, expectations of peak Fed rate continued to favor over 5.0% interest rate, although a number of analysts now expect a slowdown in Fed's monetary tightening. On the other hand, the ECB also plans to raise its deposit rate above the current 2.0% mark and has forecasted two 50 bps hikes in Q1-2023. That said, a Bloomberg survey of global central banks showed a diverging trend in rate changes in 2023 mainly led by concerns that aggressive rate hikes risk lowering demand to an extent that economies slide into recession.

In terms of bond yields, the latest consensus estimates suggest that the yield on 10-year US Treasury bonds have peaked at the end of 2022 at 3.9% and is expected to remain flattish by the end of Q1-2023 although yields dropped to 3.54% as of 9-January-2023. Yields are expected to taper starting from Q2-2023 to reach 3.51% by the end of Q4-2023. Yield on 30-year bonds are also expected to have peaked at 4.0% and are expected to reach 3.76% by Q4-2023.

Expectations in terms of fixed income issuances globally remain positive for 2023 with both sovereigns and corporates encouraged to tap the market. However, the trend in inflation would remain key to stability in the bond market as it would decide the path that central banks take to manage economic expectations. That said, economic growth in the GCC region is expected to beat global growth with project market activity expected to pick up from a slowdown over the last few quarters. This is expected to support fixed income issuances in the GCC. GCC bonds and sukuk maturities are expected at USD 67.5 Bn for 2023 and the refinancing of these instruments are expected to account for the bulk of the issuances by corporates and governments in the region this year. That said, the higher cost of borrowing and strong profitability coupled with cash generation is expected to discourage some refinancing activity in the near term.

We expect fresh issuances to be back-end loaded once stability is seen in global interest rates and exchange rates. We expect corporate issuers to come back to market during the latter half of the year once market conditions seem favorable. Sovereigns in the GCC are expected to report fiscal surpluses due to elevated oil prices. This is expected to limit overall issuances, although with diversification as a primary goal for most governments, we can expect to see project-specific issuances during the year.

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