

GCC Fixed Income Market : 2024 - The Year That Was...

GCC witnesses record fixed income issuances in 2024...

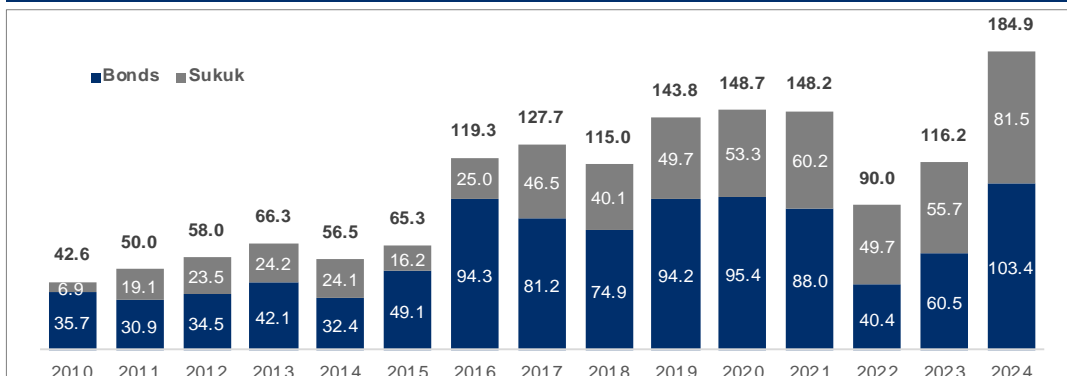
The year 2024 started with upbeat expectations for rate cuts across the globe resulting in a steep decline in yields. As a result, the start of the year witnessed record bond issuances globally, and especially from emerging market economies that wanted to lock in lower interest rates. The consensus estimates on interest rate futures factored in six cuts in 2024 at the start of the year. However, as data on inflation showed resilience, the expectation on rate cuts were drastically reduced. The year closed with 100 bps cuts from the US Fed and the ECB to their respective policy rates.

Fixed income issuances globally reached a new record high during the year reaching USD 10.7 Trillion, registering a growth of 20% vs. 2023, as per data from LSEG. New offerings came in over 34,000 instruments with a growth of 15% vs. last year. Investment grade issuances from corporates came in at over USD 5 Trillion for the first time on record while high yield instruments aggregated at USD 401.3 Billion registering an 82% increase over 2023. Data on quarterly issuances showed elevated levels during the first three quarters that declined during Q4-2024.

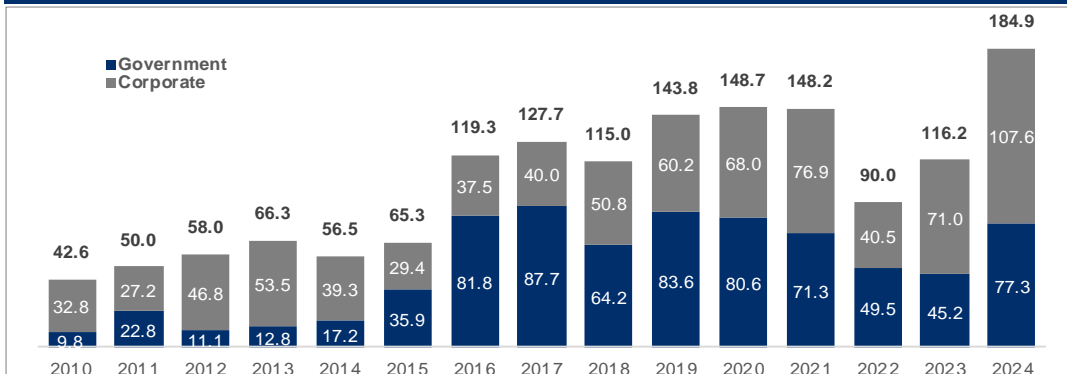
In the GCC, aggregate bonds issued also reached a record high and was over USD 100 Bn for the first time on record at USD 103.4 Bn during 2024 as compared to USD 60.5 Bn during 2023. Corporates outpaced GCC governments with total bond issuances of USD 70.1 Bn registering a growth of 74.0% vs. 2023 while issuances from governments in the region reached USD 33.3 Bn with an equally strong y-o-y growth of 65.0%. At the country level, UAE remained the biggest bond issuer in the GCC and the MENA region with total issuances of USD 49.7 Bn during 2024 as compared to USD 31.2 Bn last year followed by Saudi Arabia and Qatar.

Expectation for GCC issuances remain upbeat for 2025 led by forecasts of subdued oil prices and a strong pipeline of projects that would drive issuances from the government. Deficit financing and maturities would account for the bulk of the issuances. Corporate issuances, meanwhile, would be rate sensitive and would depend on the likely rate path during the 2H-2025.

Fixed Income Issuances in GCC (USD Bn) - Bonds vs. Sukuk Issuances



Fixed Income Issuances in GCC (USD Bn) - Government vs. Corporate Issuances



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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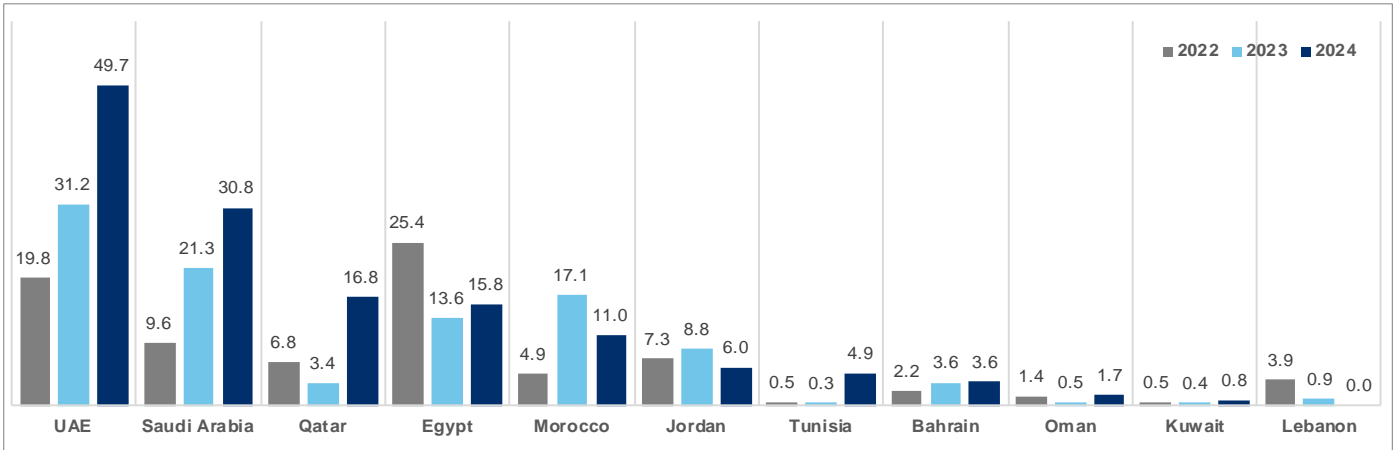
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MENA Bond Issuances

Bond Issuances (USD Bn)



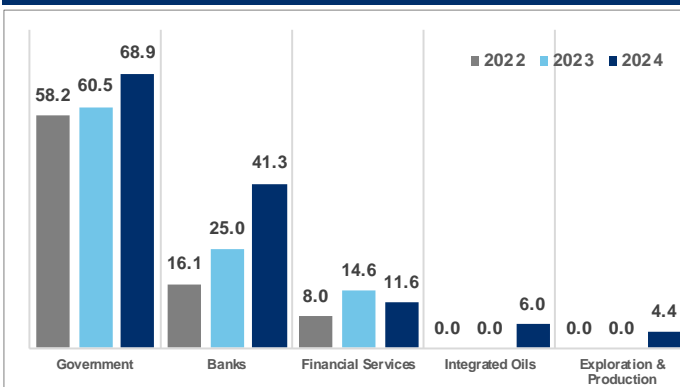
Source: Bloomberg, LSEG Workspace, Kamco Invest Research

Bond issuances in the MENA region reached a three-year high level during 2024 mainly led by a steep increase in corporate issuances during the year. Aggregate bond issuances in the MENA region reached USD 141.1 Bn during the year vs. USD 101.2 Bn during 2023, an increase of 39.4% or USD 39.8 Bn. Governments in the region raised USD 68.9 Bn from bonds during the year as compared to USD 60.5 Bn during 2023. On the other hand, corporate issuances were higher than government issuances in the MENA region for the first time in at least the last six years reaching USD 72.2 Bn in 2024 as compared to USD 40.7 Bn in 2023, registering a strong growth of 77.4%.

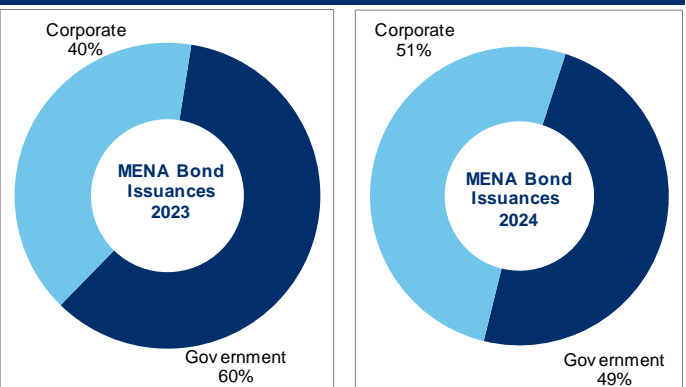
In terms of sector at the MENA level, Banks showed the biggest growth in issuances during the year while issuances from Financial Services sector declined by a fifth. Issuances from Energy and Chemicals companies also featured heavily as top issuers during the year. Aggregate issuances by MENA banks reached USD 41.3 Bn during the year, increasing by almost two-thirds as compared to 2023. There were new issuances in the Integrated Oils and Exploration & Production sectors during the year at USD 6.0 Bn and USD 4.4 Bn, respectively.

Within the MENA region, GCC countries were the key drivers of higher bond issuances during the year accounting for more than 73% of the total issuances. Total bond issuances by GCC countries reached a record high level during the year and stood at USD 103.4 Bn during 2024 as compared to USD 60.5 Bn during 2023, registering an increase of 71.0% or USD 42.9 Bn. On the other hand, bond issuances by non-GCC MENA countries (Egypt, Morocco, Jordan, Tunisia and Lebanon) declined for the third consecutive year to reach USD 37.7 Bn in 2024 as compared to USD 40.7 Bn in 2023. The biggest decline was seen in issuances by Morocco that reached USD 11.0 Bn in 2024 as compared to USD 17.1 Bn in 2023, a decline of USD 6.2 Bn during the year. On the other hand, UAE witnessed the biggest growth in issuances during the year reaching USD 49.7 Bn during 2024 as compared to USD 31.2 Bn in 2023 followed by Qatar that recorded a growth of USD 13.4 Bn. UAE was also the biggest bond issuer in the region followed by Saudi Arabia and Qatar with aggregate issuances of USD 30.8 Bn and USD 16.8 Bn, respectively. In terms of type of issuers in the GCC, both government and corporates in the region registered higher y-o-y bond issuances in 2024. Total sovereign bond issuances in the GCC stood at USD 33.3 Bn in 2024 as compared to USD 20.2 Bn in 2023. On the other hand, GCC corporates recorded issuances of USD 70.1 Bn in 2024 vs. USD 40.3 Bn in 2023.

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



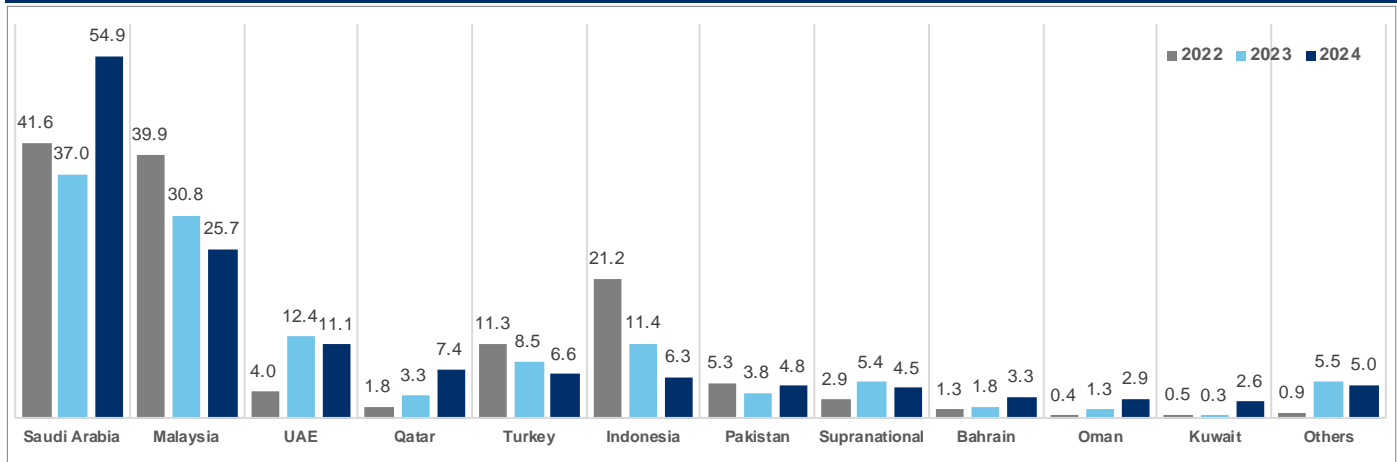
Bonds Issued - Breakdown by Issuer - MENA



Source: Bloomberg, LSEG Workspace, Kamco Invest Research

Global Sukuk Issuances

Sukuk Issuances (USD Bn)



Source: Bloomberg, Kamco Invest Research

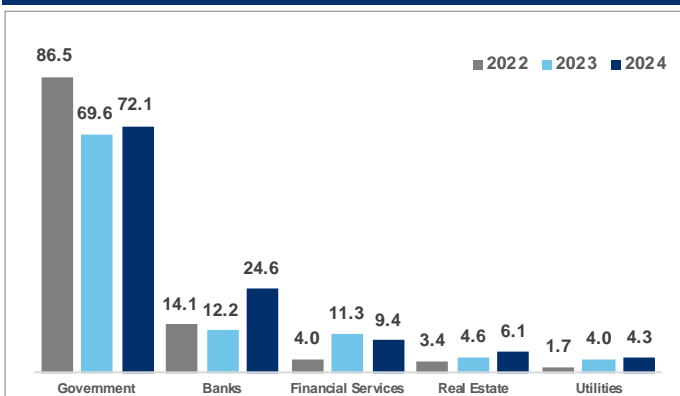
Global sukuk issuances increased during 2024 after showing a decline in 2023. Aggregate issuances reached a three-year high level at USD 132.5 Bn as compared to USD 121.1 Bn in issuances during 2023, recording a growth of USD 11.3 Bn or 9.3% during the year. The increase was mainly led by higher issuances from GCC issuers while non-GCC global sukuk issuers witnessed a decline for the second straight year.

Saudi Arabia was the top global sukuk issuer during the year for the fifth straight year with aggregate issuances reaching USD 54.9 Bn as compared to USD 37.0 Bn in 2023, registering a growth of USD 17.9 Bn or almost 50%. The growth came after two consecutive years of decline in sukuk issuances in the Kingdom during 2022 and 2023. The growth was mainly led by higher sukuk issuances from the government that almost doubled during the year to reach USD 34.1 Bn in 2024 vs. USD 17.9 Bn in 2023 while corporate sukuk issuances in the Kingdom showed a smaller increase of around 10% to reach USD 20.8 Bn in 2024 vs. USD 19.1 Bn in 2023. Malaysia was next with aggregate sukuk issuances at USD 25.7 Bn in 2024 as compared to USD 30.8 Bn in 2023. Issuances in Malaysia was the lowest in ten years during 2024 that was mainly led by a steep drop in government sukuk issuances as compared to historical levels. Total government sukuk issuances in Malaysia reached USD 7.1 Bn in 2024 vs. USD 12.7 Bn in 2023 while corporate issuances in Malaysia registered a small y-o-y gain of 2.5% to reach USD 18.5 Bn in 2024 as compared to USD 18.1 Bn in 2023. UAE ranked third globally with total sukuk issuances reaching USD 11.1 Bn during 2024 as compared to USD 12.4 Bn in issuances in 2023.

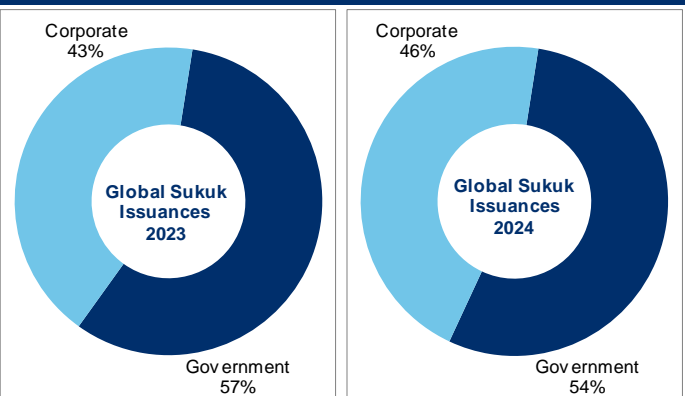
Sovereign sukuk issuers continued to lead during 2024 with higher issuances as compared to corporates. However, the share of government issuances continued to decline in 2024 vs. historical levels. Total government sukuk issuances stood at USD 72.1 Bn in 2024, as compared to USD 69.6 Bn in 2023. On the other hand, corporate sukuk issuances was the highest on record during 2023, reaching USD 60.3 Bn during the year as compared to USD 51.6 Bn during 2023. This was also reflected in the record share of corporate sukuk issuers that reached 45.5% during 2024 as compared to 42.6% during 2023.

Higher sukuk issuances by Saudi Arabia and Qatar supported the growth in aggregate sukuk issuances in the GCC in 2024. Total sukuk issuances in the GCC stood at a record high of USD 82.1 Bn in 2024 as compared to USD 56.1 Bn in 2023 whereas non-GCC global sukuk issuances stood at USD 50.4 Bn in 2024 vs. USD 65.1 Bn in 2023.

Top Five Sectors by Global Sukuk Issuance (USD Bn)



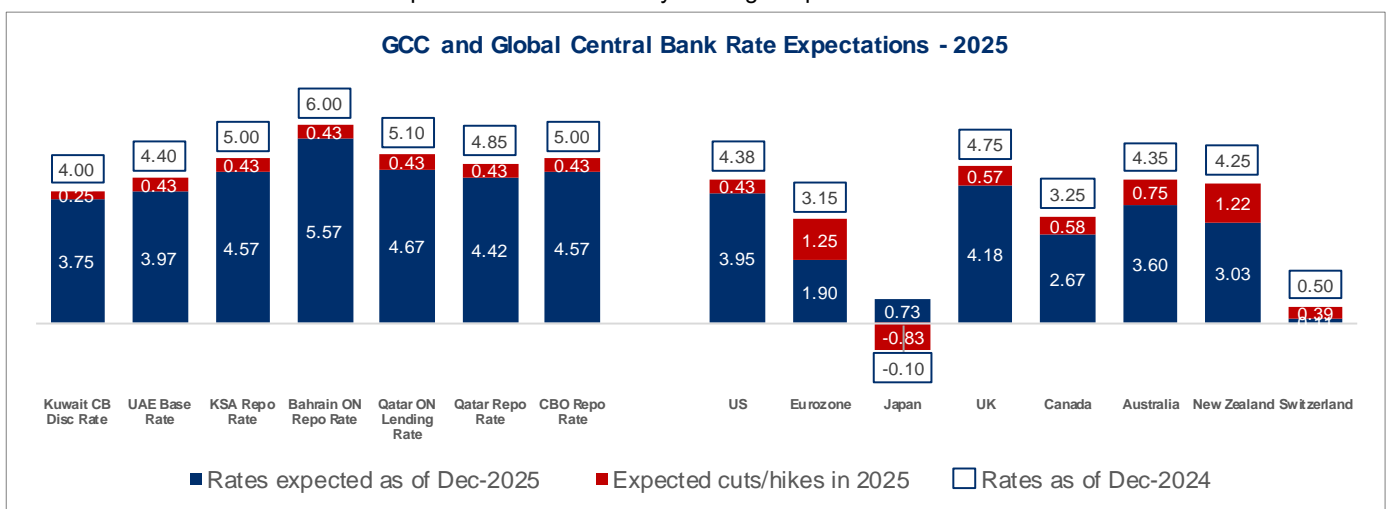
Breakdown by Global Sukuk Issuers



Source: Bloomberg, Kamco Invest Research

Expectations

The outlook for 2025 remains clouded by a number of factors and most important one being the expected policies of the new incoming government in the US. The likely change in policies in the US is forecasted to be inflationary, further adding to US Fed's worries about fighting sticky inflation. The inflation for November-2024 and the Fed comments pointed to a departure from dovish policies to a hawkish stance. This would mean interest rates are expected to remain elevated for a longer time as compared to the previous expectations. The health of the US economy which remains resilient to higher interest rates also is a cause for the likely hawkish policies in 2025. The US economy is expected to show steady growth in 2025 and the worries about a soft landing or a recession have almost completely out of question. And this was reflected in the rate cut outlook for 2025 with the Fed officials signaling two cuts in 2025 in their latest forecast as against four cuts expected in September-2024. The consensus is also factoring in around two rate cuts in 2025 by the US Fed and four to five cuts by the ECB. Meanwhile, eurozone inflation was following a gradual declining path but with the release of flash estimate inflation for December-2024 that showed inflation reaching the highest in five months since July-2024 at 2.4%, the rate cut path for the ECB is likely to be derailed and the ECB could follow a path similar to the US by slowing the pace of rate cuts in 2025.



Source: Bloomberg, Kamco Invest Research

We expect rate cuts by GCC central banks to be broadly in line with the US Fed due to the pegged currencies. Kuwait is expected to be an exception in the GCC as its currency pegged to a basket of currencies. We expect Kuwait's central banks to cut rate at a relatively smaller pace vs. the US Fed as seen in 2024. This is mainly because Kuwait central bank implemented the smallest rate hike over the last two years and is therefore expected to cut rates at the smallest pace.

Expectations in terms of fixed income issuances globally for 2025 may be curtailed as compared to the record issuances seen in 2024. A higher than previously forecasted yields is one of the key reasons for the y-o-y decline expected in 2025. Moreover, global debt remains at a record high currently and with elevated interest rates, the cost of debt servicing is also at a record high, indicating increasing pressure on corporate profits in the new year as well as higher probabilities of corporate failures. This was seen in 2024 that registered a 33.5% increase in bankruptcies in the US during 9M-2024 led by higher interest rates, inflation, higher labor costs and post-pandemic shifts in consumer spending. These trends continue to prevail as we enter 2025 as we could most likely see an increasing trend in bankruptcies.

In terms of GCC fixed income issuances, maturities are elevated in 2025 at USD 89.8 Bn 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. We are seeing a fund raising spree in the US as treasury yields are trending upwards. The recent issuance of USD 12.0 Bn bonds by Saudi Arabia and the USD 1 Bn sukuk issuance by Kuwait's KFH are seen as following similar strategies. Issuances in 2025 would be further supported by a strong pipeline of projects across the GCC related to the respective diversification goals.

We expect fresh issuances to come during the 2H-2025 as more clarity emerges in terms of interest rates and inflation. A fear that some of the rate cuts may be reversed in 2026 could also trigger higher issuances to lock in lower rates. Fiscal deficits by some sovereigns in the region, including Saudi Arabia's forecasted USD 27.0 Bn in deficits, is another factor supporting issuances by GCC sovereigns. The Kingdom has forecasted around USD 80 Bn in funding needs to cover fiscal deficits and debt maturities. The outlook for sukuk issuances is also positive with GCC expected to dominate the market once again, in line with the last few years. A rising demand for sukuks as well as sustainable financing is expected to drive growth in global issuances of sukuks and ESG compliant sukuk instruments.

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