GCC Fixed Income Market Update

December-2021

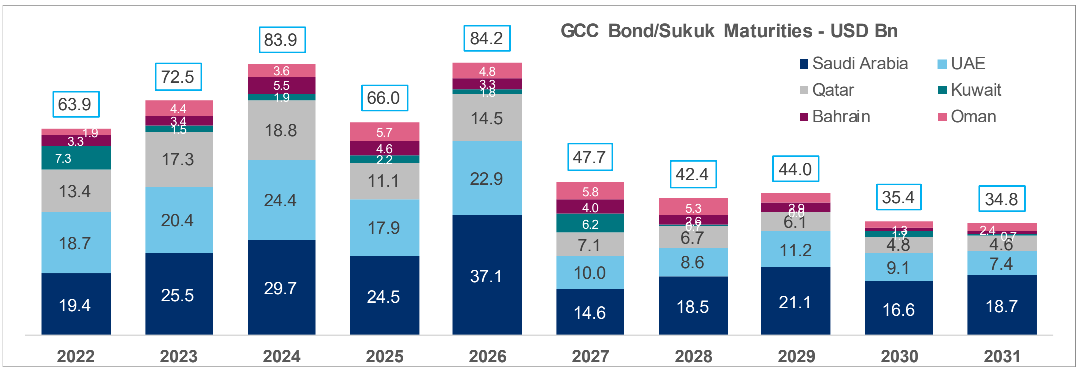
Corporates to partly offset continued decline in govt. issuances in 2022...

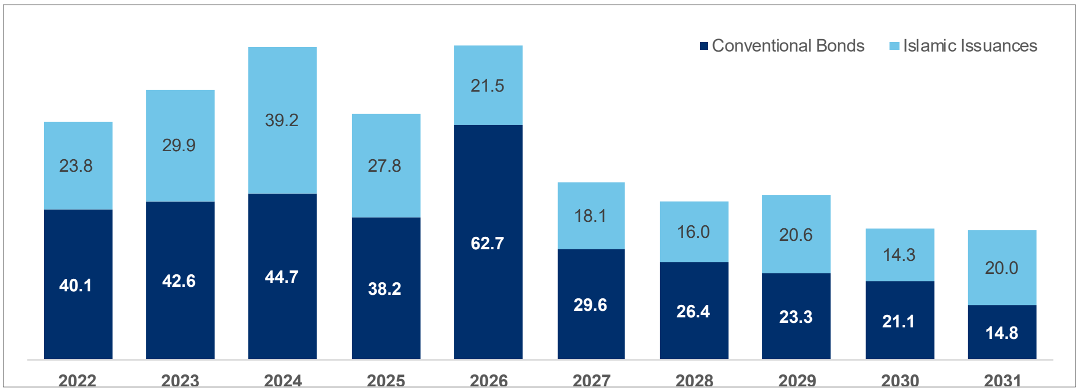
The year 2021 was a turnaround year for world financial markets, and specifically for the GCC region due to the additional impact and influence of oil prices. The Covid-19 induced financing requirements saw debt levels reaching record levels globally and in the GCC last year with record high issuances from almost all countries in the region in 2020. ***The recovery in financial and commodity markets in 2021 came as an encouraging sign for exporters, although logistical and supply issues continue to hamper production in certain areas. Crude oil also witnessed a steep recovery and saw the OPEC steering the markets to push oil to the highest in 7-years from a 3-decade low seen last year.***

Fixed income issuances in the GCC remained elevated in 2021, but as we had expected, there was a small decline as compared to issuances in 2020. The decline was mainly led by better fiscal position of the regional governments backed by elevated oil prices. On the other hand, corporates were encouraged by the recovering economy and investment opportunities that led to higher issuances this year, partly offsetting the decline in government issuances. In addition, record low interest rates globally was also one of the key reasons for the increase in corporate issuances. ***Total issuances as of mid-December-2021 stood at USD 145.5 Bn as compared to USD 150.4 Bn in issuances last year.***

Bonds and sukuk maturities stood at USD 55.1 Bn in 2021 and the refinancing of these accounted for the bulk of the issuances by corporates and governments in the region. On the other hand, expected fiscal deficits for 2021 by most of governments in the region was also one of the key factors of elevated sovereign issuances during the year.

For 2022, once again we are expecting a decline in issuances from the government that is expected to be partially offset by higher issuances from corporates. According to consensus estimates, GCC government's fiscal deficits are expected to significantly decline next year from the record high level of around USD 125 Bn seen last year. *Both elevated oil prices as well as economic recovery is expected to result in higher revenues that would lower funding deficits for infrastructure investments. On the other hand, we expect the interest rates to remain low for the next few months, especially during 1H-2022, based on the latest US Fed comments. This should encourage corporates as well as governments to prepone debt issuances to take advantage of the lower rates.*





Sources : Bloomberg, Kamco Invest Research

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Rating actions and interest rates

The global economic recovery was evident from the sovereign ratings action during 2021 with a significant decline in downgrades whereas upgrades were sizable. According to data from Bloomberg, this year almost 22 sovereign ratings downgrade actions were taken by the rating agencies as against 20 upgrades. Sovereigns continued to have largely lose monetary policies in 2021 by keeping interest rates at extremely low levels in order to support spending and investments which had a significant impact on supporting vulnerable sectors during the pandemic. However, the indications for next year shows a reversal of lose policies with the announcement from the US Fed and BoE. Rates in the GCC remained stable in line with US Fed rates due to the currency pegs. The UAE Central Bank, which has now anchored its overnight rates to 50 bps above US Fed's IORB, raised the Overnight deposit rate by 5 bps in June-2021.

GCC - Key Central Bank Rates vs. US Fed Fund Rate

Dates	Kuwait CB Disc Rate	UAE ON Dep Rate	KSA Repo Rate	Bahrain ON Repo Rate	Qatar Repo Rate	Oman CBO Repo Rate	US Fed Fund Rate
Dec-18	3.00	N/A	3.00	4.50	2.50	3.01	2.25 - 2.5
Dec-19	2.75	N/A	2.25	4.00	2.00	2.28	1.5 - 1.75
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

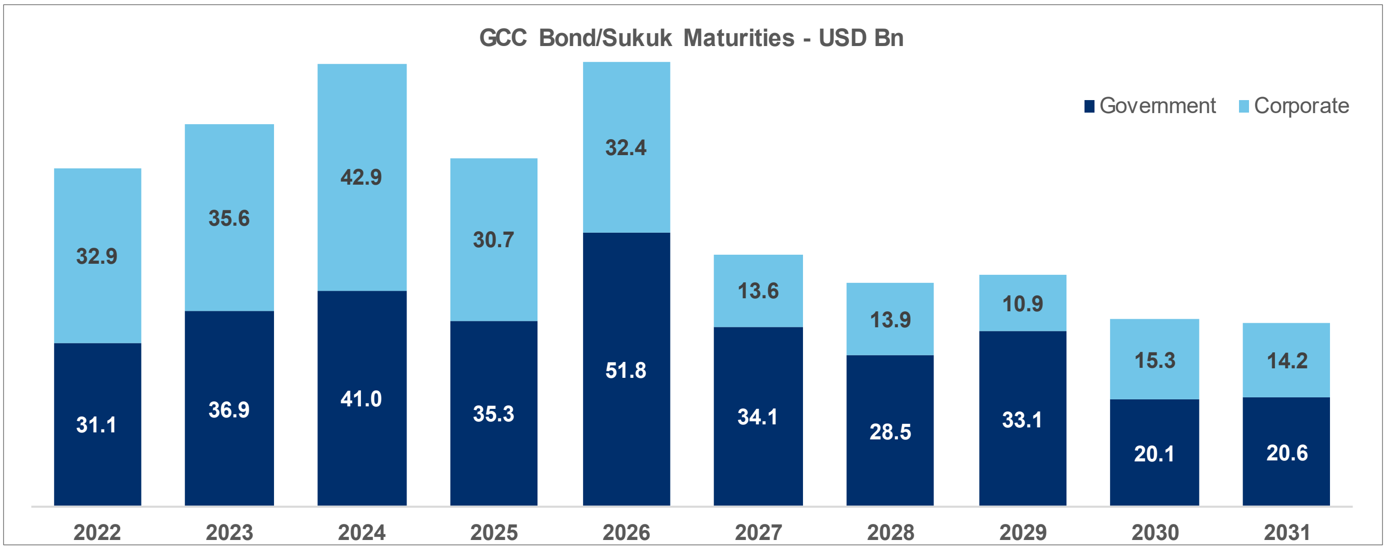
GCC - Sovereign Credit Ratings Profile

	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-	NEG
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

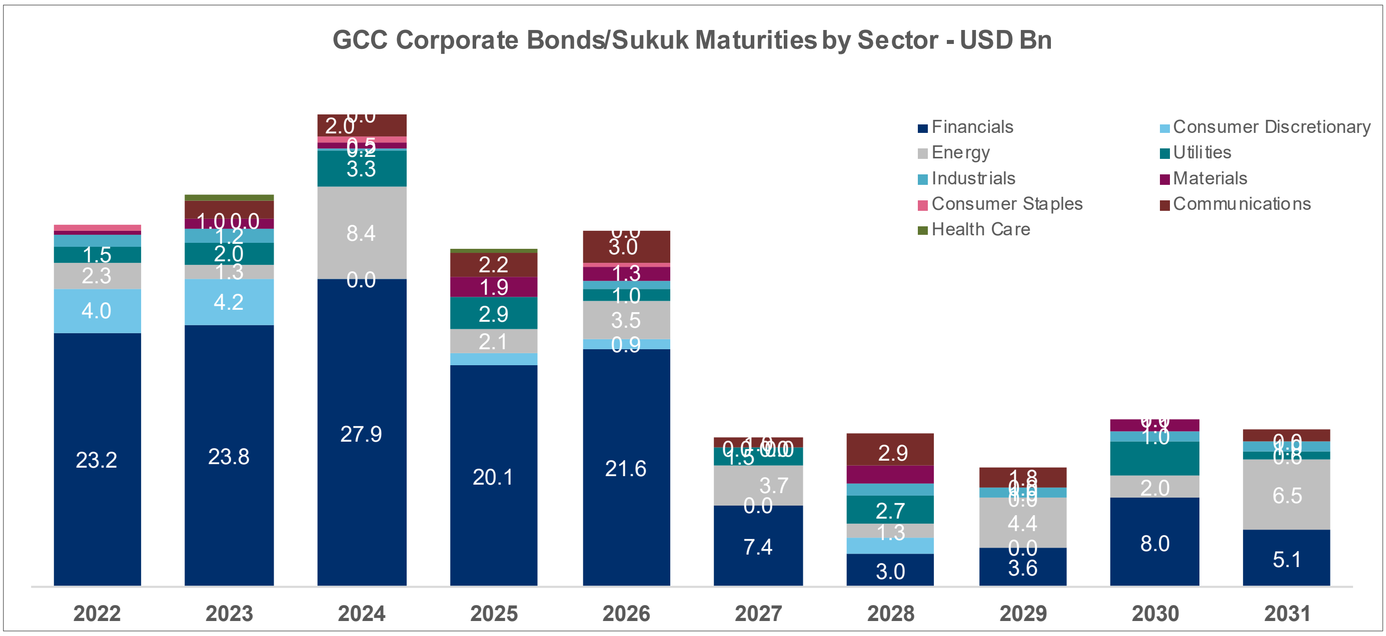
Sources : Bloomberg, Kamco Invest Research

Sovereign ratings for the GCC countries have remained largely stable this year with the exception of Kuwait that was downgraded by a single notch to A+ by S&P. However, there were several outlook revisions for the GCC countries including Saudi Arabia's revision to Stable from Negative by Moody's and Fitch reflecting economic growth and comfort on the fiscal front supported by elevated oil prices. Bahrain's outlook was downgraded to Negative from Stable by S&P and Moody's during 1H-2021 but S&P revised it to Stable by year end. Kuwait's outlook was also downgraded to Negative by S&P and Fitch, while Oman's rating was revised to Stable by Moody's and Positive by S&P.

The US Fed, in a surprise hawkish move aimed at accelerated monetary tightening, announced an extraordinary quicker tapering following persistent inflationary pressure which stood at decades high level in recent months. The FOMC also said it would double the pace of asset purchase program to USD 30 Bn per month from the current ongoing USD 15 Bn and the program is expected to complete 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. The announcement highlights strong employment numbers over the last few weeks that have now reached pre-pandemic levels. 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%.



Sources : Bloomberg, Kamco Invest Research



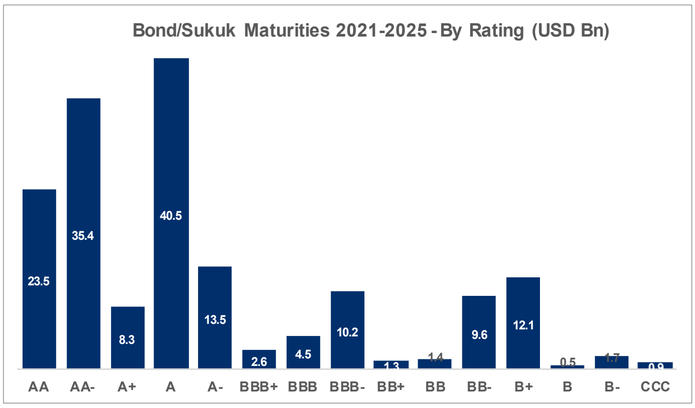
Sources : Bloomberg, Kamco Invest Research

Bond/Sukuk Maturities

GCC governments are expected to see USD 196.0 Bn in fixed income maturities over the next five years (2022-2026), whereas corporate maturities stand slightly lower at USD 174.6 Bn. Both bond and sukuk maturities are expected to remain elevated starting from 2022 until 2026 and then gradually taper for the rest of the tenor. The higher maturities during the next five year shows a number of short term (less than 5-year maturity) issuances in 2020 and 2021. A majority of these maturities are denominated in USD at 59.1% followed by local currency issuances in SAR and QAR at 19.6% and 7.0%, respectively. In addition, due to the credit rating profile of the GCC governments, a majority of these maturities are in the high investment grade or A rated instruments. In terms of type of instruments, conventional bonds dominate with USD 228.3 Bn in maturities over the next five years, whereas sukuk maturities are expected to be at USD 142.2 Bn. In terms of country split, Saudi Arabia has overtaken UAE in terms of biggest maturities over the next five years. The Kingdom is expected to see maturities of USD 136.2 Bn until 2026 followed by UAE and Qatari issuers at USD 104.2 Bn and USD 75.1 Bn, respectively.

In terms of sector maturities, Banks and other Financial Services sector have USD 102.1 Bn in maturities in the next five years, accounting for around 58.5% of the total corporate maturities and 27.5% of the total maturities in the GCC until 2026. The Energy sector was next with maturities of USD 17.7 Bn or 10.1% of GCC corporate maturities until 2026 followed by Real Estate and Utilities at USD 11.7 Bn and USD 10.7 Bn, respectively. Banks in UAE have the biggest maturities over the next five years at USD 40.2 Bn followed by Qatar at USD 25.6 Bn. Banks in the two countries accounted for 22.8% of total bond/sukuk maturities over the next five years in the GCC. Real Estate maturities are also concentrated mainly in the UAE and Saudi Arabia at USD 6.9 Bn and USD 2.2 Bn, respectively, until 2026.

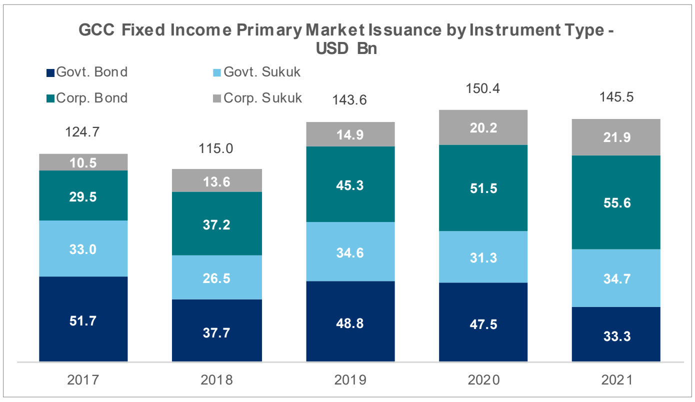
The structure of maturities are also changing gradually as an increasing number of issuances are perpetual instruments. According to data from Bloomberg, perpetual issuances have seen growth for the seventh consecutive year in 2021. Issuances reached record levels during 2021 at USD 9.4 Bn as compared to USD 6.4 Bn in 2020. Adding maturities beyond 30 years or from 2050 onwards, the issuances totaled USD 24.7 Bn in 2021 vs. USD 39.8 Bn in 2020.

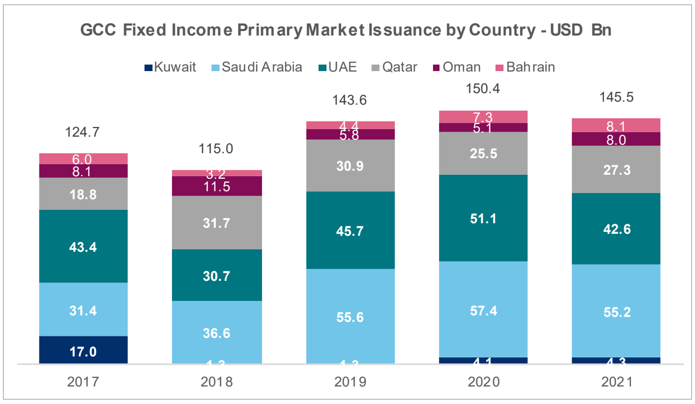


Sources : Bloomberg, Kamco Invest Research

New issuances see marginal decline in 2021 vs. 2020

Total fixed income issuances in the GCC stood at USD 145.5 Bn in 2021 as compared to USD 150.4 Bn during 2020. Saudi Arabia and UAE remained the top fixed instrument issuers in the region with issuances of USD 55.2 Bn and USD 42.6 Bn, respectively, during 2021. The decline in issuances came mainly on the back of a fall in UAE and Saudi Arabian issuers by 16.6% and 3.8%, respectively, while the rest of the GCC countries reported marginal increase in 2021. In terms of issuers, corporates overtook government issuers for the second consecutive year during 2021 with issuances totaling USD 77.5 Bn as compared to USD 68.0 Bn for government issuers.





Sources : Bloomberg, Kamco Invest Research

Corporates witnessed a 8.1% y-o-y growth in issuances during 2021 whereas government issuers reported a decline of 13.6%. In terms of type of instruments, sukuk issuances overtook bond issuances for the first time at USD 90.3 Bn as compared to USD 88.9 Bn worth of bonds during the year. Both government sukuks and corporate sukuks witnessed a growth during the year by 11.1% and 8.5%, respectively. For bond issuances, corporate bond issuances were up by 7.9% in 2021 at USD 55.6 Bn, whereas government bonds issuances declined by 29.9% to USD 33.3 Bn in 2021 vs. USD 47.5 Bn in 2020.

The issuance of ESG compliant or Green instruments remained subdued in the region as compared some of the developed markets globally. According to Bloomberg data, there were seven green-compliant instruments issued during 2021 with total proceeds of USD 1.3 Bn as against four instruments in 2020 with proceeds of USD 2.0 Bn. The global trend is towards responsible investment and reducing carbon emission. With pledge from a number of sovereigns the region in this regard, we can expected to see a greater number of green issuances in the near-term.

Outlook

After an exceptional 2020 that witnessed one of the deepest economic slowdowns globally as well as in the region, fixed income issuances reached record high levels in the GCC as well as globally. With this high base, GCC bond and sukuk issuances declined during 2021, as per our expectations. Among the government issuers in the GCC, Saudi Arabia, Bahrain and Oman reported marginally higher issuances during 2021, whereas UAE and Qatari government issuances dropped. We expect to see a similar trend by governments in the region during 2022 with a decline in government issuances being partly offset by an increase in corporate issuances.

Fiscal deficit is expected to see a steep decline next year, based on IMF estimates. Saudi Arabia, in its latest budget, said it is expected to post surplus for the first time in seven years in 2022. In its budget statement, the MOF said that the overall stock of debt in 2022 is expected to remain in line with 2021 levels and new borrowings would be directed to repayment of maturing instruments during the year. Priority capital projects would be financed through debt issuances in 2022, as per the budget, indicating a drop in overall government issuances in 2022 by Saudi Arabia. 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. This would lower the funding requirements by the Qatari government.

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.

Nevertheless, the risk of covid-19 is yet to be fully overcome with the spread of new variants resulting in announcements of restrictions. This could limit the global growth story if vaccinations are not administered in an equitable fashion. The GCC region was leading in terms of vaccination efforts and with the present infrastructure, the region is in a position to avoided any severe impact. But with integrating global markets, economic impact on the GCC cannot be fully immunized.

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