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Investment Strategy & Research

GCC Fixed Income Market Update

June-2022

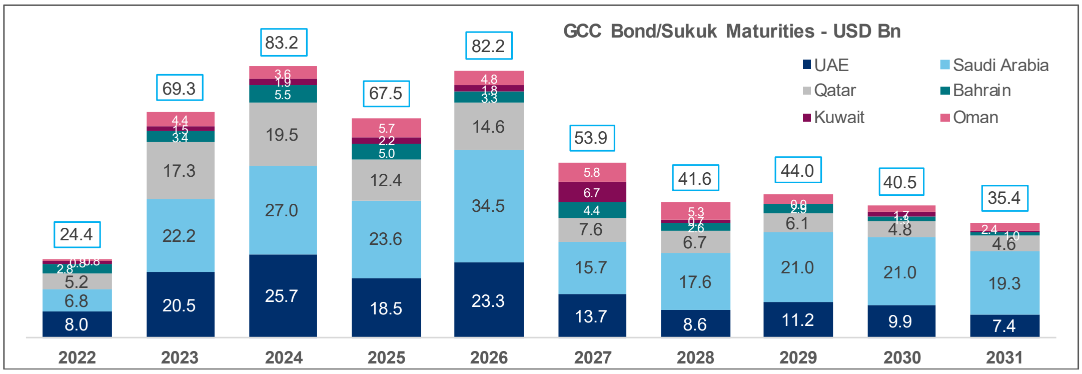
GCC FI issuances drop 40% y-o-y in YTD-May-2022; expect fewer issuances in 2022...

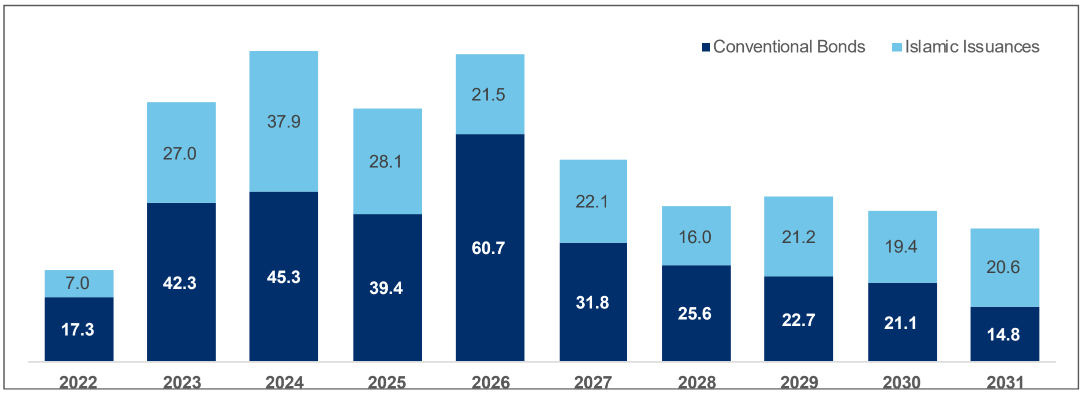
GCC governments were in a much stronger footing at the start of 2022 than the previous two years mainly led by full resumption of activity post the pandemic that led to faster economic growth in the region. ***The activity was also reflected in the PMI figures for the region that stayed comfortably above the 50 mark for Saudi Arabia, Qatar, UAE and Dubai since the start of the year. The IMF also forecasted a much stronger GDP growth for the region at 6.4% with an upward revision of 220 bps in its latest regional economic outlook report. Nevertheless, bulk of the growth revision was made to oil-GDP that reflected higher output expected in 2022.***

Meanwhile, the record level of global debt raised during 2020 in the region as well as globally was an essential element of economy rescue efforts to deal with the pandemic. However, the additional debt pushed global debt-to-GDP ratio to over 250% of GDP. This stock of debt is expected to affect economic growth in the range of 0.9% and 1.3% for EMs and developed markets over the next three years. ***In addition, a faster withdrawal of the supportive measures is expected for countries that are seeing faster economic growth and where private sector is in a good shape, according to the IMF.***

Fixed income issuances in the GCC declined during 2021 vs. 2020 and the trend this year also points to a second consecutive year of decline. The decline this year comes mainly on the back of better fiscal position of the regional governments backed by elevated oil prices as well as a pick up in economic activity. *Also limiting issuances this year includes factors like higher interest rates as well as record fund raising activity in the equity markets which saw significant demand from local and global investors.* ***Total issuances during the first five months of the year declined by 40% y-o-y to USD 37.2 Bn as compared to USD 61.9 Bn during the first five months of 2021.***

Bonds and sukuk maturities is expected at USD 24.4 Bn for the remainder of 2022 and the refinancing of these is expected to account for the bulk of the issuances by corporates and governments in the region. *That said, the higher cost of borrowing is expected to discourage some refinancing activity in the near term. For the full year 2022, we are expecting a steep decline in issuances as a result of decline in issuances from both the government as well as corporates.*





Sources : Bloomberg, Kamco Invest Research

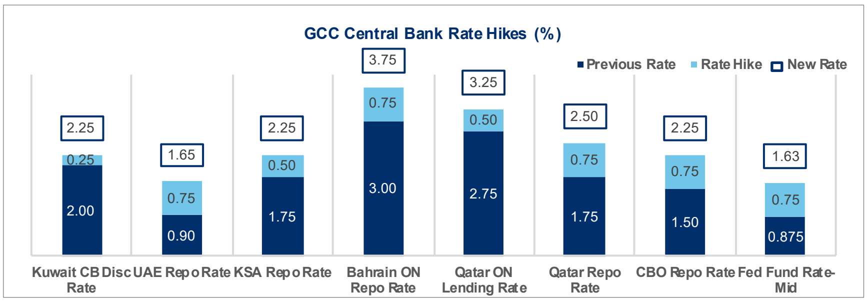
Junaid Ansari

Head of Investment Strategy & Research

+(965) 2233 6912

jansari@kamcoinvest.com

Rating actions and interest rates



GCC - Sovereign Credit Ratings Profile

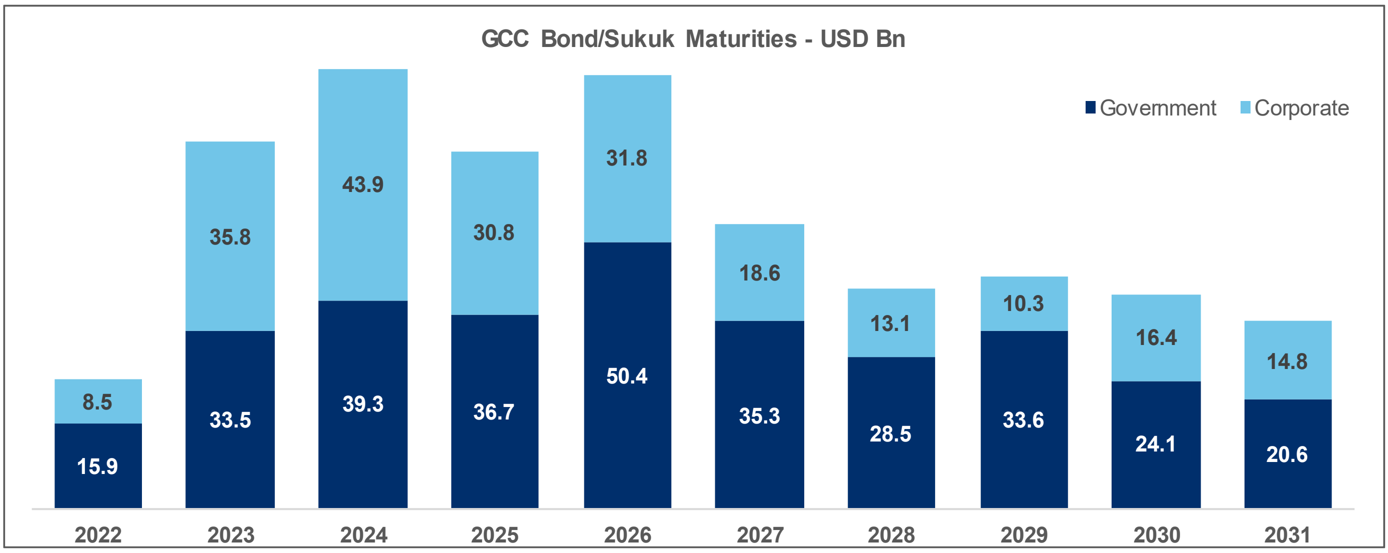
	S&P		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Bahrain	B+	STABLE	B2	STABLE	B+	STABLE
Kuwait	A+	NEG	A1	STABLE	AA-	STABLE
Oman	BB-	STABLE	Ba3	STABLE	BB-	STABLE
Qatar	AA-	STABLE	Aa3	STABLE	AA-	STABLE
Saudi Arabia	A-	POS	A1	STABLE	A	POS
UAE	NR	NR	Aa2	STABLE	AA-	STABLE
Abu Dhabi	AA	STABLE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

Sources : Bloomberg, Kamco Invest Research

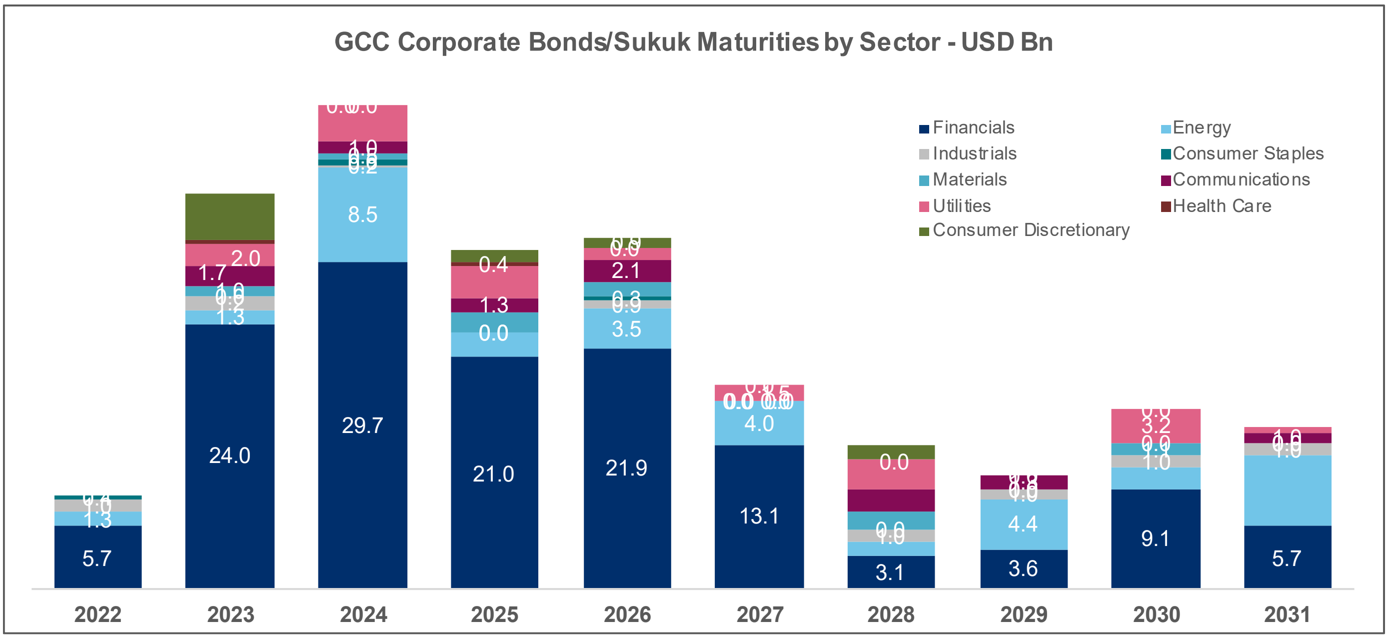
Sovereign rating actions since the start of 2022 were mainly focused on European sovereigns mainly led by the Russia/ Ukraine war. A majority of the ratings actions were negative reflecting the economic impact of the war led by supply chain disruption in the region. According to data from Bloomberg, this year almost 14 sovereign rating downgrade actions were taken by the rating agencies as against 9 upgrades. This also comes at time when sovereigns have initiated roll back of the pandemic-related incentives by way of increasing rates and accelerated bond buying programs. One of the major outcomes of the war was the increase in price of key commodities (along with oil) as Russia and Ukraine were one of the biggest suppliers of edible commodities, oil and natural gas. The resultant increase in inflation was felt across the globe reaching decades high level in the US, UK and a number of advanced and emerging market countries. Moreover, the relative strengthening of the USD further exacerbated the economic impact on emerging market countries by way of making imports costly.

In addition, there are also fears of a stagflation and recession led by steep drop in prices of risk assets across markets and with economic prospects in the red, expectations of a further decline in global financial markets cannot be ruled out. This has apparently forced policymakers to implement bigger rate hikes, as seen from the recent 75 bps hike made by the US Fed with expectations of a repeat 75 bps hike in the next meeting followed by further hikes by the end of the year with rates reaching around 4%. Nevertheless, in its recent statement, the ECB said that despite the rising rates and inflationary pressure, it expects prices to slow below the 2% mark by 2H-2023 as economic activity is expected to show growth next year. Some analysts also expect the current selling pressure to be deeper but short-lived as compared to previous downturns.

Sovereign rating actions in the GCC remained muted with one upgrade and one downgrade. Oman's sovereign rating was upgraded to BB- from B+ by S&P in April-2022 while the outlook was revised to Stable. The upgrade reflected higher oil prices, higher oil production and the government's fiscal reform program. Non-oil sectors are also expected to support overall growth in the economy. Kuwait, on the other hand, was downgraded one notch by Fitch to AA- in February-2022. Meanwhile, key policy rates in the GCC have remained largely stable this year reflecting the strong support from elevated oil prices. The 25 bps hike in March-2022 by the US Fed was largely replicated by GCC central banks but the recent 75 bps hike did not result in equivalent hikes across the GCC.



Sources : Bloomberg, Kamco Invest Research



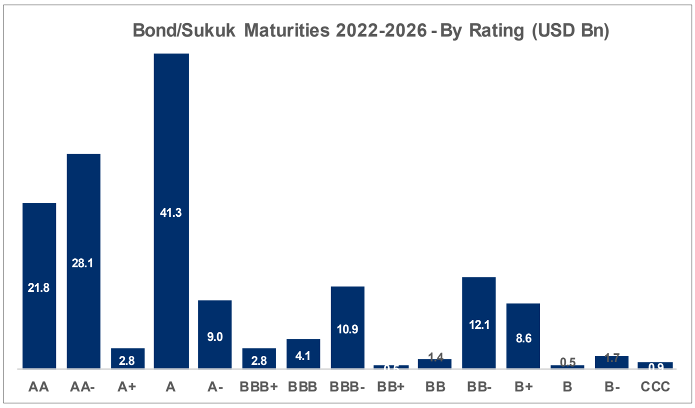
Sources : Bloomberg, Kamco Invest Research

Bond/Sukuk Maturities

GCC governments are expected to see USD 175.8 Bn in fixed income maturities over the next five years (2022-2026), whereas corporate maturities stand slightly lower at USD 150.7 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 years reflects 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 58.0% followed by local currency issuances in SAR and QAR at 18.9% and 7.8%, 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 205.0 Bn in maturities over the next five years, whereas sukuk maturities are expected to be at USD 121.5 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 114.2 Bn until 2026 followed by UAE and Qatari issuers at USD 95.9 Bn and USD 69.0 Bn, respectively.

In terms of sector maturities, Banks and other Financial Services sector have USD 102.4 Bn in maturities in the next five years, accounting for around 67.9% of the total corporate maturities and 31.4% of the total maturities in the GCC until 2026. The Energy sector was next with maturities of USD 16.8 Bn or 11.2% of GCC corporate maturities until 2026 followed by Utilities and Consumer Discretionary at USD 9.2 Bn and USD 6.2 Bn, respectively. Banks in UAE have the biggest maturities over the next five years at USD 34.6 Bn followed by Qatar at USD 22.6 Bn. Banks in the two countries accounted for 23.2% 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 5.2 Bn and USD 1.7 Bn, respectively, until 2026.

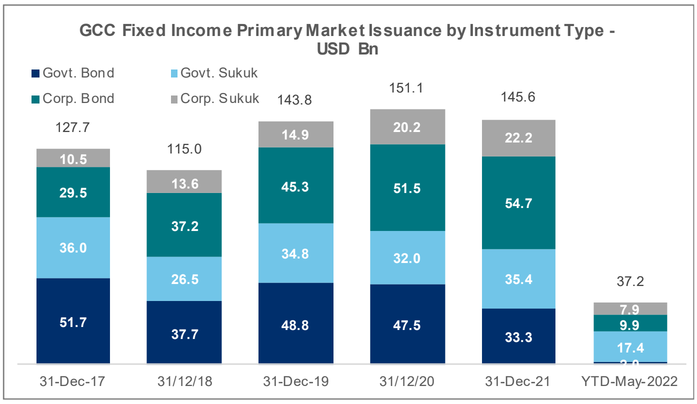
The structure of maturities are also changing gradually as an increasing number of issuances are perpetual instruments. According to data from Bloomberg, perpetual issuances saw growth for the seventh consecutive year in 2021 and trend for the current year remains elevated. Issuances reached USD 3.8 Bn during the first five months of 2022. Adding maturities beyond 30 years or from 2050 onwards, the issuances totaled USD 4.2 Bn so far this year.

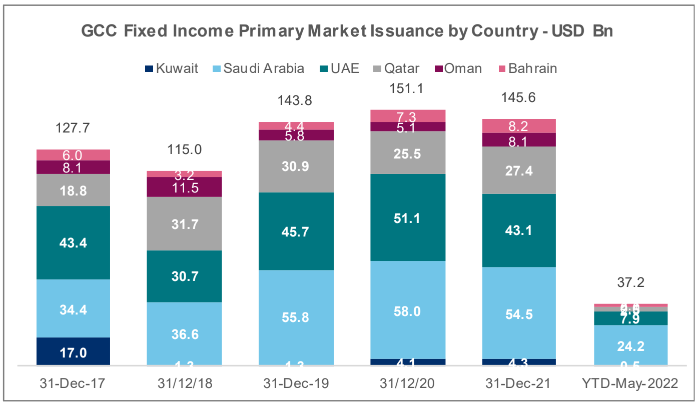


Sources : Bloomberg, Kamco Invest Research

Steep decline in issuances in 2022

Total fixed income issuances in the GCC stood at USD 37.2 Bn during the first five months of 2022 as compared to USD 61.9 Bn during the corresponding period in 2021, registering a y-o-y decline of 40%. Saudi Arabia and UAE remained the top fixed instrument issuers in the region with issuances of USD 24.2 Bn and USD 7.9 Bn, respectively, this year. The decline in issuances were seen across the board with all the issuing countries seeing a decline this year. Oman had no issuances this year as compared to USD 6.0 Bn in issuances in 2021. UAE witnessed the biggest absolute decline in issuances with total issuances at USD 7.9 Bn this year as compared to USD 20.3 Bn in YTD-May-2021, a decline of USD 12.4 Bn. Saudi Arabia, on the other hand, witnessed the smallest decline of merely USD 0.3 Bn resulting in almost flat y-o-y issuances.





Sources : Bloomberg, Kamco Invest Research

Corporates witnessed a 47.7% y-o-y drop in issuances in YTD-May-2022 whereas government issuers reported a relatively smaller decline of 30.1%. In terms of type of instruments, sukuk issuances once again overtook bond issuances with total sukuk issuances at USD 25.4 Bn in YTD-May-2022 as compared to USD 11.9 Bn worth of bonds during the same period. Both government sukuks and corporate sukuks witnessed growth during YTD-May-2022 registering growths of 42.7% and 6.7%, respectively. For bond issuances, corporate bond issuances declined by 62.8% in YTD-May-2022 at USD 9.9 Bn, whereas government bonds issuances declined by a steeper 87.3% to USD 2.0 Bn this year vs. USD 15.6 Bn during the corresponding period last year.

The issuance of ESG compliant or Green instruments in the region picked up pace this year, in line with the trend seen globally. According to Bloomberg data, there were six green-compliant instruments issued this year with total proceeds of USD 1.8 Bn as against seven instruments in 2021 with proceeds of USD 1.3 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

The year 2021 saw corporates offsetting a decline in issuances from governments but the aggregate issuances witnessed a decline vs. 2020. In 2022, the decline is expected to be steeper as both corporates as well as governments are expected to see a decline in issuances. Governments in the region are eyeing fiscal surpluses after years of deficits backed by elevated oil revenues. Corporates, on the other hand, may see a decline in issuances mainly led by higher rates and its impact on overall economic activity.

Fiscal deficits for the GCC countries is expected to see a steep decline this year mainly backed by higher oil revenues coupled with full resumption of economic activity vs. previous two years. According to the forecasted general government balances of IMF, the GCC region is expected to see aggregate fiscal surplus of USD 152.2 Bn in 2022 followed by a surplus of USD 147.8 Bn in 2023. According to reports, Saudi Arabia made around USD 1 Bn each day from oil exports during Q1-2022 and is expected to post surplus for the first time in almost a decade in 2022. However, unlike the previous surpluses that were mainly spent on incentives and large infrastructure investments, the government now aims to strengthen its balance sheet. The Kingdom's finance minister said that the surpluses would be accumulated in government's current account held at the central bank until the year end and after that it would be used to replenish foreign exchange reserves and may be transferred to the Kingdom's sovereign wealth fund. This move is aimed at creating a disconnect between economic performance and oil prices. This would also mean that fixed income issuances from the government would remain elevated in the Kingdom and was reflected in almost flattish issuances during the first five months of 2022 vs. the corresponding period in 2021. UAE government issuances, which is down 61% this year, are also expected to remain low in 2022 vs. last year mainly due to the fast paced privatization through equity listings announced by both Abu Dhabi and Dubai governments. 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 is expected to lower the funding requirements by the Qatari government.

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KAMCO INVEST

Kamco Investment Company - K.S.C. (Public)
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 2233 6600   Fax: (+965) 2249 2395
Email : research@kamcoinvest.com
Website : www.kamcoinvest.com