

## GCC Fixed Income Weekly Review

Global benchmark bond index remained under pressure as long-term DM bond yields continued to rally. Concerns over a hawkish Fed and inflation pressures aggravated over the week, pushing the 10yr UST yields to their highest level in three months. Similar trend was observed in the European bond market as inflation and policy normalisation concerns drove core bond yields and UK gilt yields higher. US IG market recorded weekly loss amidst the rally in UST yields. EM bonds added to their weakness on the back of broad dollar strength and rising UST yields.

GCC bonds also came under pressure amidst the rise in volatility in the global bond markets. Lower-rated sovereigns of Oman and Bahrain were the most impacted while better-quality sovereigns of Saudi and UAE were less impacted. CDS spreads were mixed due to the volatility in the oil prices. In the USD bond market, 10yr bond yields edged higher across all the GCC countries. Oman 10yr bond and Kuwait 10yr bond underperformed the most with bond yields rising by more than 20bp.

After the Saudi's PIF revealing its plans of green bond deal, **Saudi's national debt office also indicated that it will be issuing new green bonds.** The bonds will be issued to help the government reach its issuance target of SAR124bn for this year. The country is falling behind by SAR24bn from its 2021 issuance target, having issued SAR100bn as of end of August. Sticking to issuances, **UAE's medium term note programme has received an initial rating of AA2 by the Moody's rating agency, allowing the federation to raise debt globally for the first time.** The Aa2 rating is comparable to the long-term issuer rating of the UAE with the country's capital Abu Dhabi also having the same rating. Elsewhere, **Bahrain is planning to double its VAT rate to 10% with an aim to boost revenues and rein in its budget deficit.** The 10% VAT rate will be the highest in the region after Saudi Arabia's VAT rate of 15%. However, there is not much clarity as to when the VAT will be implemented.

In terms of issuance activity, it was relatively a quiet week as corporates remain wary of the sell-off in the global bond market. There were no new corporate issuances announced over the week.

Country	Saudi Arabia	Abu Dhabi	Dubai*	Kuwait	Bahrain	Oman	Qatar	Egypt
Moody's	A1	Aaa2	Baa1	A1	Ba2	Ba3	Aa3	B3
Fitch	A	AA	-	AA	B+	BB-	AA-	B+

### Prerana Seth

Fixed Income Strategist  
Tel: +971 (0)2 696 2878  
[prerana.seth@adcb.com](mailto:prerana.seth@adcb.com)

### Mohammed Al Hemeiri

Analyst  
Tel: +971 (0)2 696 2236  
[mohammed.alhemeiri@adcb.com](mailto:mohammed.alhemeiri@adcb.com)

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## GCC Fixed Income Weekly Snapshot

Bond Index Snapshot (Emerging market and GCC)				Interest rates ( Sunday to Thursday)			
	Latest	-1w %	YTD %		Latest	-1w (bp)	YTD (bp)
BBG Barclays**				3M interbank			
EM USD Agg TR	1,274.0	-0.6	-1.1	Saudi^^	0.81	-	-0.89
EM LatAm TR	1060.5	-0.8	-2.5	UAE	0.32	-12.9	-18.8
EM EMEA TR	403.3	-0.6	0.2	Kuwait	1.50	0.00	6.25
EM Asia TR	666.3	-0.4	-1.3	Bahrain	1.55	-0.8	-70.0
Bahrain TR	177.4	-0.7	0.2	Oman	2.17	0.17	-51.00
Oman TR	133.1	-1.3	5.2	Qatar	1.15	2.2	2.9
Kuwait TR	150.7	-0.3	1.0	US	0.13	-0.21	-10.83
Qatar TR	146.9	-0.5	-1.4	12M interbank			
Saudi Arabia TR	150.9	-0.6	-0.4	Saudi^^	0.93	-	-1.1
UAE TR	147.0	-0.4	0.5	UAE	0.43	0.65	-21.98
5Y Sov. CDS	Latest (bp)	-1w (bp)	YTD (bp)	Kuwait	2.00	0.0	6.3
Saudi Arabia	55.3	-0.2	-12.6	Bahrain	1.80	0.00	-88.33
Abu Dhabi	45.1	0.2	5.3	Oman	3.03	-0.5	-30.2
Dubai	99.3	-0.1	-20.9	Qatar	1.34	-0.56	-2.45
Kuwait	54.1	-3.1	6.4	10Y yield			
Bahrain	298.63	2.1	45.0	Saudi Arabia	2.53	10.1	16.9
Oman	274.4	-7.8	-101.9	Abu Dhabi	2.02	12.50	40.40
Qatar	45.5	0.3	5.4	Dubai	2.55	3.9	-4.3
Egypt	474.5	34.2	122.6	Kuwait	1.43	21.60	30.00
Turkey	436.0	1.0	125.6	Bahrain	5.73	14.8	91.6
US	17.9	3.0	1.2	Oman	5.18	22.90	-29.30
Germany	10.2	0.1	-2.2	Qatar	2.10	11.2	44.7

Note: \*Dewa rating used as proxy, \*\* data as of Friday close | Source: Moody's rating, Fitch ratings, Bloomberg, ADCB Asset Management

## Saudi Arabia will borrow an extra USD6bn; planning green bonds

Saudi Arabia's national debt office has indicated that it is around SAR24bn (USD6.4bn) behind its outlined borrowing plan for 2021 and is likely to tap into green bonds to meet its target. The debt office stated that the goal is to raise SAR124bn and has managed to collect SAR100bn until the end of August. The government will also consider financing backed by export credit agencies, in addition to conventional and Islamic bonds. The government has also hired banks to help design a sustainability financing framework. Last week, the kingdom's sovereign wealth fund- The Public Investment Fund has revealed its plans of issuing new green bonds. (Source: Zawya)

## Moody's rating agency assigns Aa2 on UAE's medium-term note programme

Moody's rating agency has assigned an initial Aa2 bond rating for the UAE's medium term note programme, allowing the federation to raise debt globally for the first time. The Aa2 rating is comparable to the long-term issuer rating of the UAE with the country's capital Abu Dhabi also having the same rating. The programme will have bonds issued in various currencies and maturities with the funds used to cover general budgetary needs as well as finance infrastructure projects and investments by the Emirates Investment Authority. According to Moody's rating agency, the UAE's Aa2 rating is attributed to its high per capita income and hydrocarbon wealth, along with a long track record of political stability and strong international relations. Even though revenue is highly decentralized, with individual emirates collecting the bulk of general government revenues, Moody's believes the federal government will receive full support from Abu Dhabi, given its strong balance sheet and substantial net creditor position. Additionally, the rating agency believes that the fiscal decentralization will help reduce the contingent liabilities arising from government-sponsored ventures of the individual emirates. (Source: Zawya)

## Bahrain government planning to double its VAT to 10%

Bahrain is planning to double its value-added tax (VAT) to 10% as it seeks to increase revenues and reduce the budget deficit, according to a Bloomberg report. The 10% VAT rate will be the highest in the region after Saudi Arabia's VAT rate of 15%. However, there is not much clarity as to when the VAT will be implemented. Bahrain has been under fiscal stress despite receiving financial aid from its neighbors. The plan to raise the VAT comes after a thorough review of its revenues and spending, in an effort to balance its budget by the end of 2022. According to IMF estimates, Bahrain's budget deficit is expected to decline to 9.1% of GDP in 2021 from 18.3% of GDP in 2020. (Source: Zawya and Bloomberg).

## OPEC+ appears to be sticking to its November production plans

OPEC+ will probably stick to an existing agreement to increase output by 400,000bpd in November, despite oil price increases above USD80per barrel and increased consumer demand for higher supply. Last month, OPEC+ had agreed to increase production by 400,000bpd each month until the 5.8mn barrels cut was phased out. The agreement will also be reviewed in December. According to OPEC's Twitter account, the ministerial decisions of OPEC and non-OPEC to return 400,000bpd to the market will continue to help balance incremental increases to meet demand while preventing supply overhangs.

## Latest bond issuances (Corporate and Sovereigns)

Issuer	BBG	Sector	Country	Issue Amt	Cpn	Maturity	Maturity Type	Currency	Issue Date	Rtg ^	YTM (mid)	YTC (mid)
First Abu Dhabi Bank PJSC	FABUH	Financials	AE	344.73	1.125	9/7/2026	AT MATURITY	GBP	9/7/2021	AA-	1.20	-
ADCB	ADCBUH	Financials	AE	285	1.72	9/7/2026	AT MATURITY	USD	9/7/2021	A+	1.55	-
AUB Sukuk Ltd	AUBBI	Financials	BH	600	2.615	9/9/2026	AT MATURITY	USD	9/9/2021	BBB	2.55	-
Abu Dhabi Government International Bond	ADGB	Financials	AE	1750	1.875	9/15/2031	AT MATURITY	USD	9/15/2021	AA	1.97	-
Abu Dhabi Government International Bond	ADGB	Financials	AE	1250	3	9/15/2051	AT MATURITY	USD	9/15/2021	AA	2.97	-
NBK SPC Ltd	NTBKKK	Financials	KW	1000	1.625	9/15/2027	CALLABLE	USD	9/15/2021	AA-	1.68	1.79

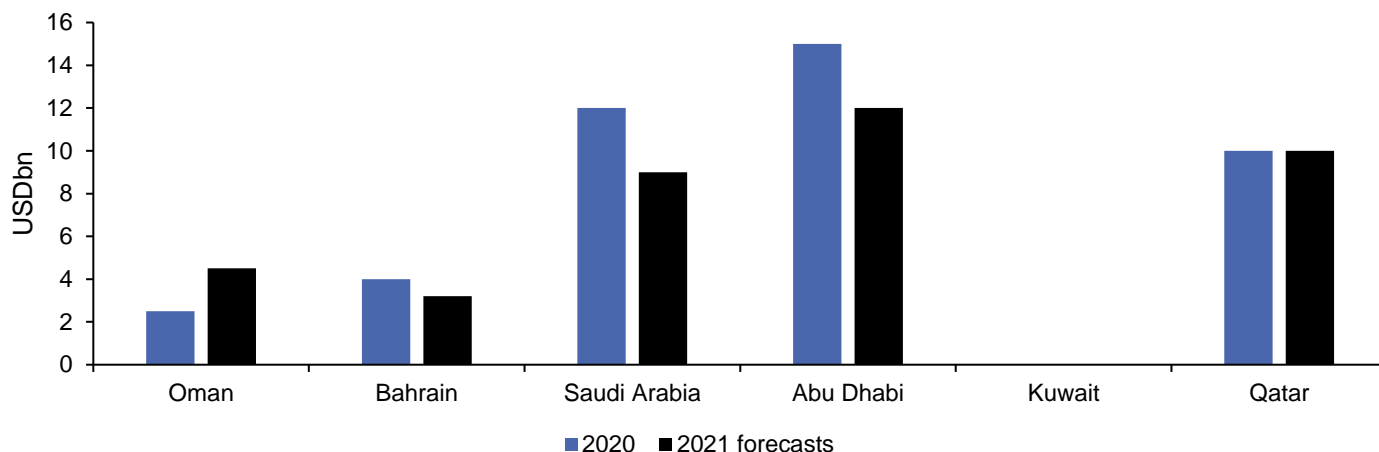
\*Amount Issued in USDmillion, Bloomberg sector classification has been used, ^Issuer rating used where applicable, Fitch rating or equivalent used

Source: Fitch Ratings, Moody's ratings, Bloomberg, ADCB Asset Management

## Appendix

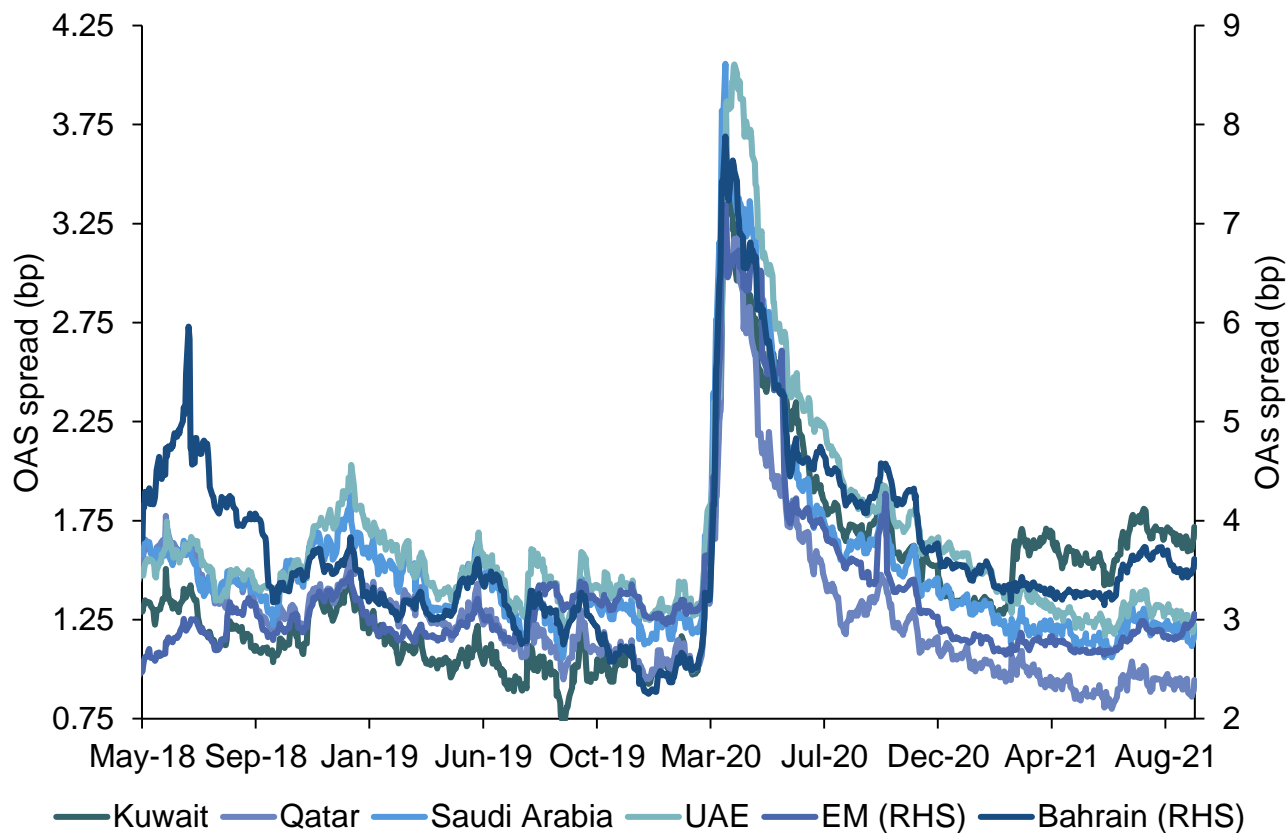
### GCC sovereign borrowing estimates

GCC sovereigns to borrow less in 2021, barring Oman



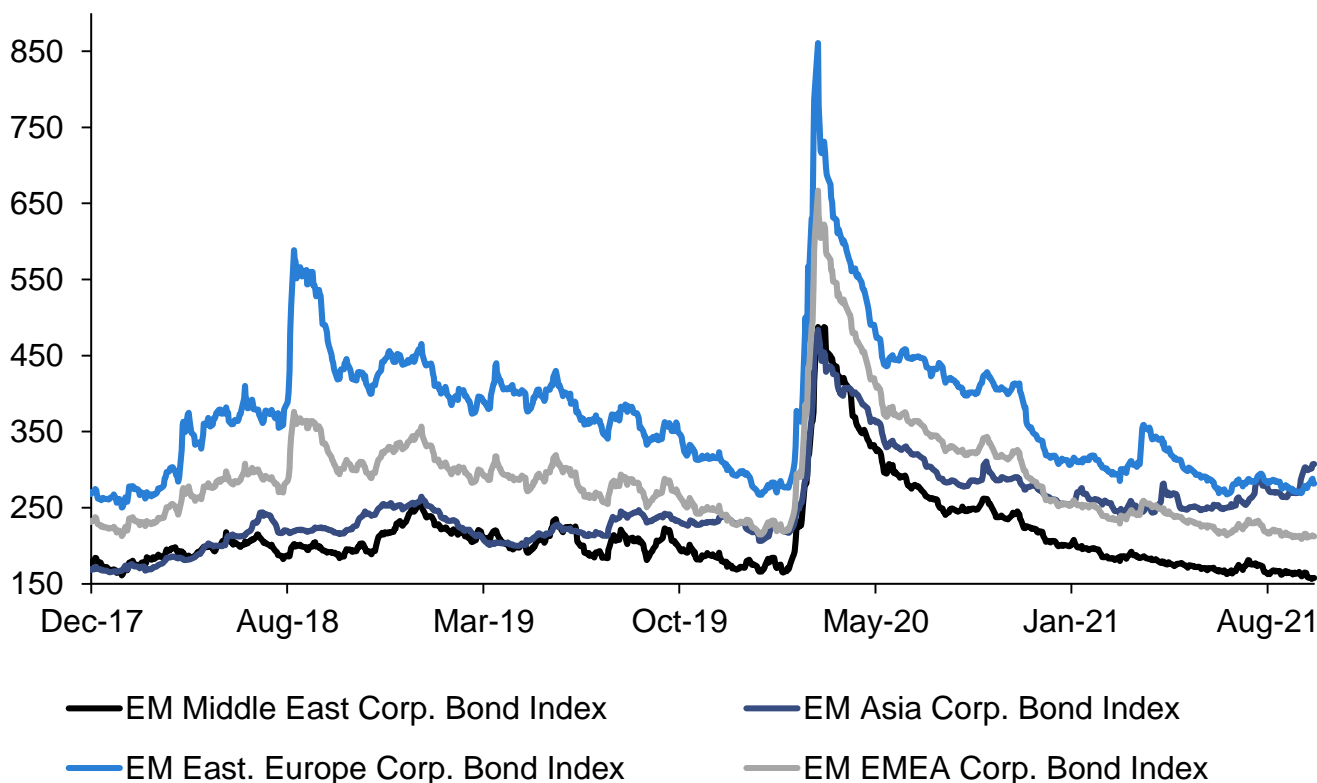
Source: Government Sources, Bloomberg, ADCB Investment Strategy estimates

### Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



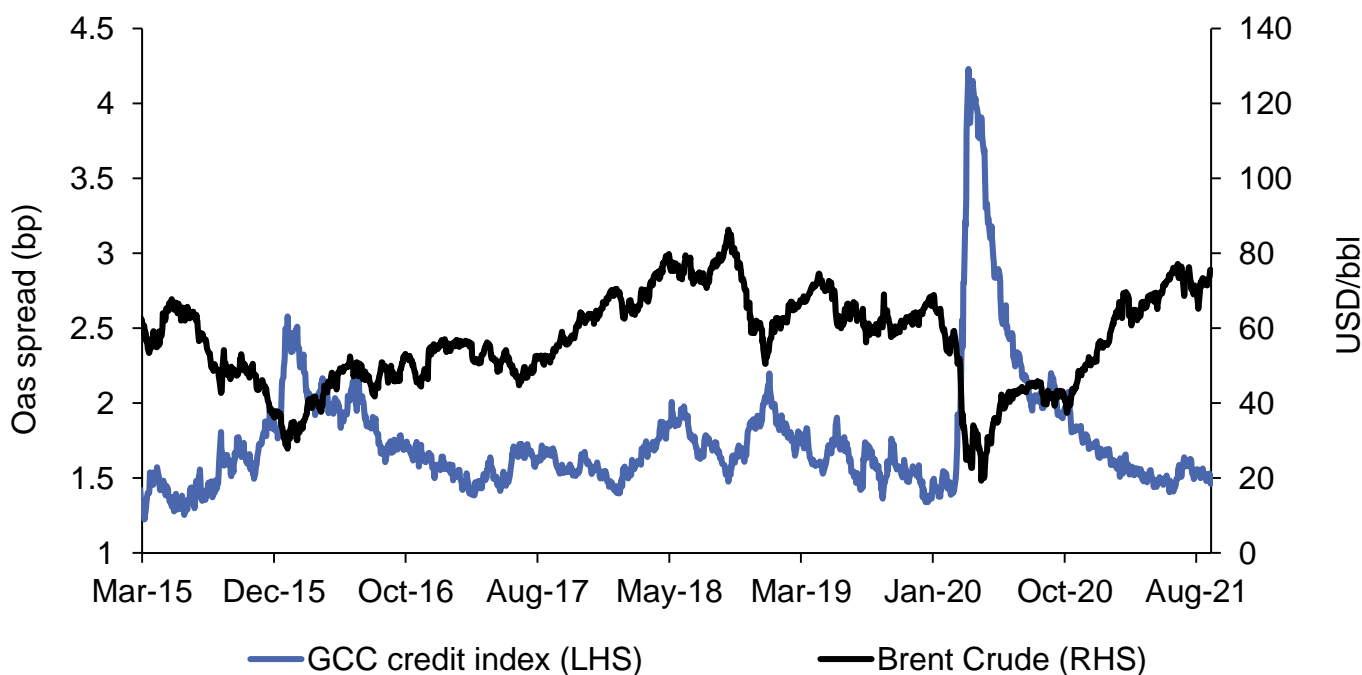
Source: Bloomberg Barclays Sovereign Bond Indices, Bloomberg, ADCB Asset Management

## Emerging markets versus Middle East spread



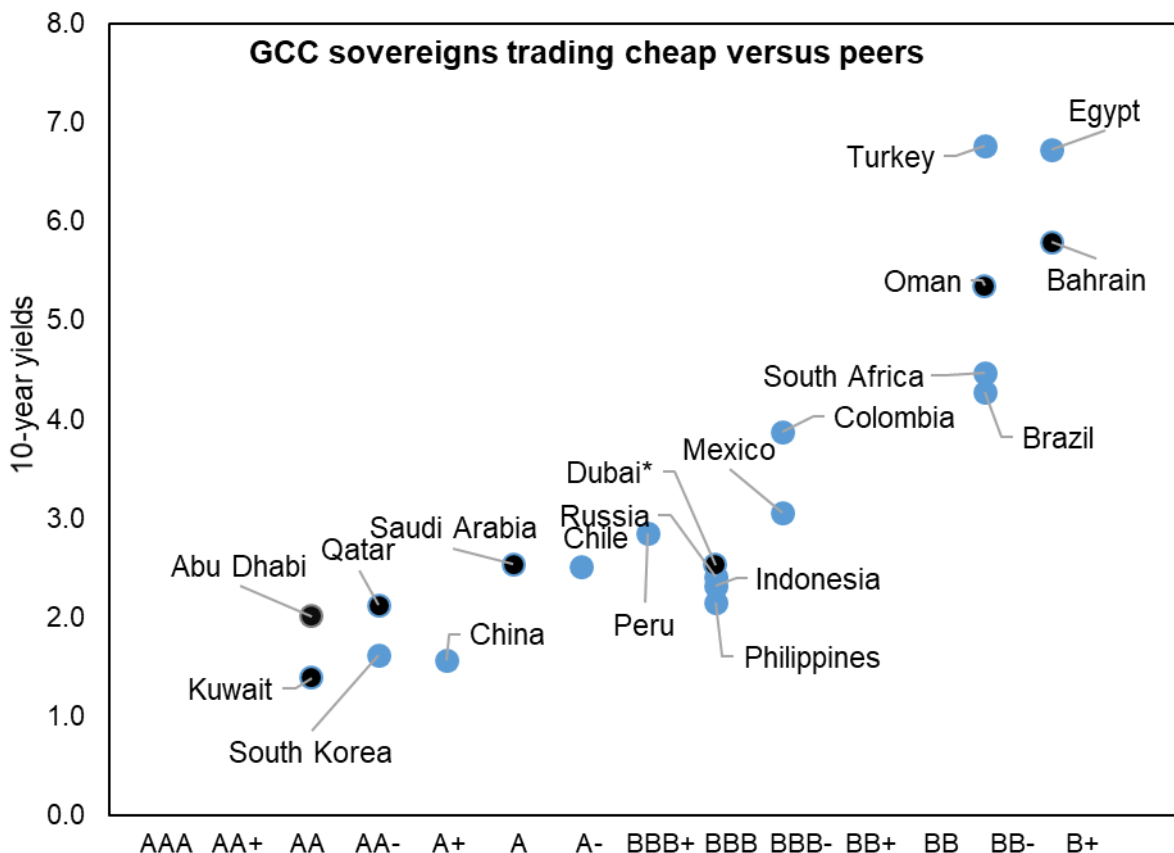
Source: Credit Suisse Corporate Bond Indices, Bloomberg, ADCB Asset Management

## GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB

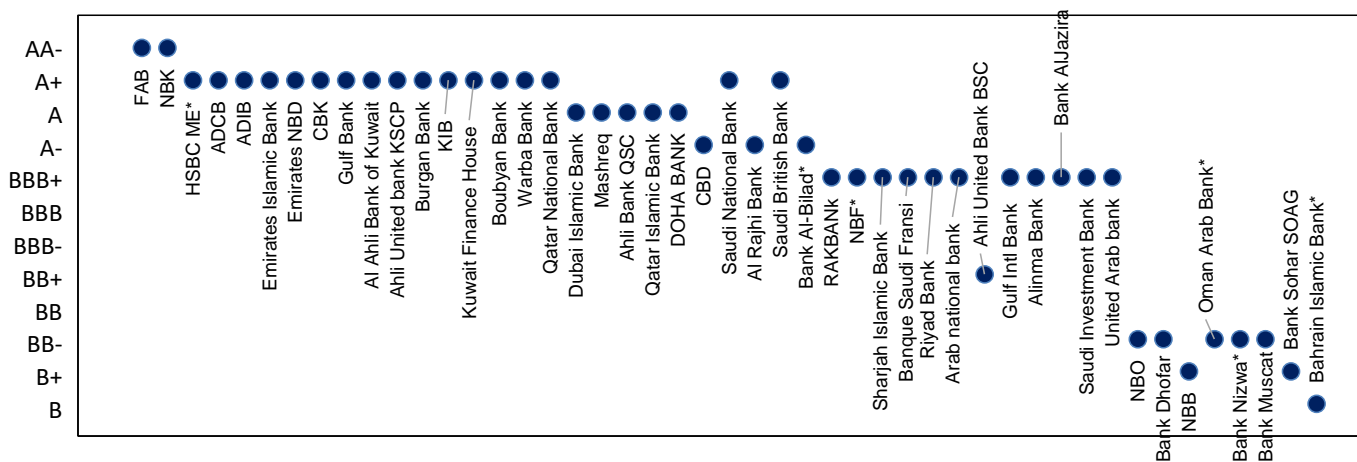
## 10yr yield versus Credit ratings (EM vs GCC)



Source: Fitch ratings, Bloomberg, ADCB, \*Dewa rating used as a substitute for Dubai, Fitch ratings are used for all countries

## GCC Financials Credit Rating

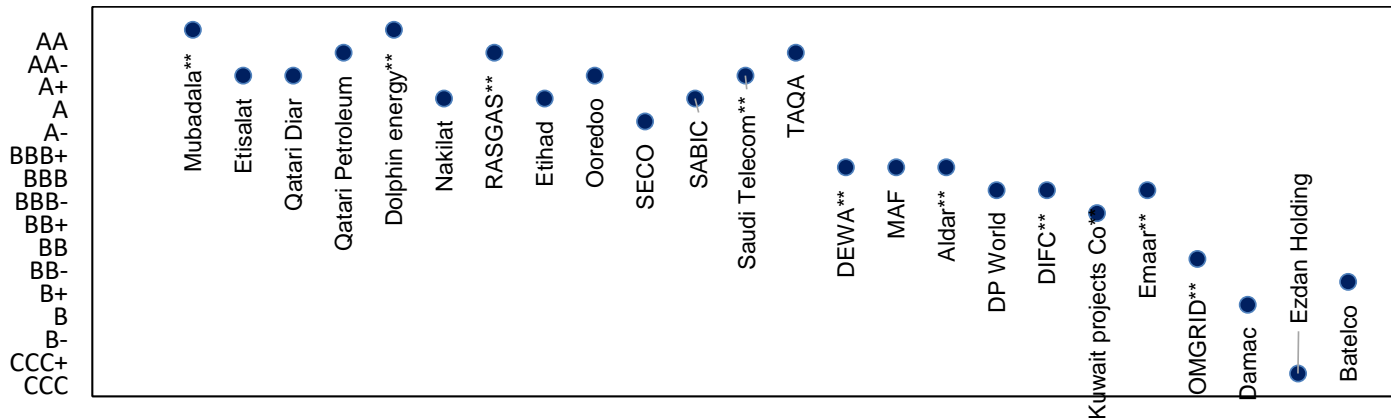
### GCC Financials



Note: The ratings refer to Fitch ratings, \*Moody's rating used as substitute where the corporate/bank not rated by Fitch ratings  
Source: Fitch ratings, Moody's ratings, Bloomberg, ADCB

## GCC Corporate Credit rating

### GCC Corporates



Note: The ratings refer to Fitch ratings, \*\* Moody's ratings used as substitute where the corporate/bank not rated by Fitch ratings

Source: Fitch ratings, Moody's ratings, Bloomberg, ADCB

## Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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