

MENA ASSET MANAGEMENT

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# **FIXED INCOME** MARKETS **QUARTERLY** REPORT

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OCTOBER 2019



## Fixed Income Markets Quarterly Report

### Markets Update:

Global fixed income markets rallied in the third quarter of 2019 as major central banks across the globe were adopting more accommodative policies on the back of weakening growth and slower job creation. The U.S. Federal Reserve Bank (Fed) cut its policy rate by 25 basis points (bp) twice this past quarter. Moreover, the Fed stopped shrinking its balance sheet over growing concerns regarding macroeconomic growth and lower inflation as well as to alleviate the impact of the ongoing trade war. Interest rate futures contracts show that markets expect another 25bp policy rate cut in October. Meanwhile in Europe, the ECB cut its policy rate further into negative territory and reintroduced “Quantitative Easing” in order to reignite economic growth. This leaves most high quality government bonds in Europe trading with a negative yield.

The increasingly accommodative monetary policies across the globe triggered rallies across major fixed income indices during the third quarter. Meanwhile, the MENA region’s sovereign risk premiums tightened by a range of 5 to 20 bp in the third quarter, which allowed the regional bond market indices to outperform their global counterparts that have similar average ratings. This tightening came in spite of an uptick in regional tension, and was largely driven by a global risk-on trend and a search for higher yields.

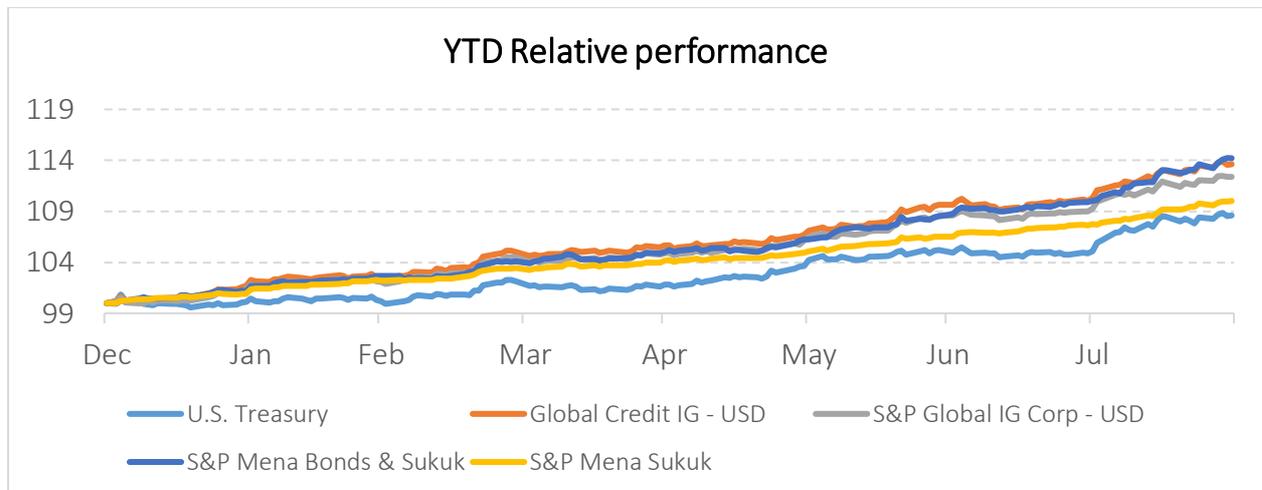
Global Interest Rates (10-Years)		
	Rate %	Q3 Var.
USA	1.66	-0.34
Germany	-0.57	-0.24
U.K.	0.49	-0.35
Japan	-0.21	-0.06
Swiss	-0.79	-0.24

As of end of the third quarter, most central banks in the GCC, with the exception of Kuwait, reduced their policy rates in line with the Fed. This comes as a natural result of the currency pegs in place.

### Performance of Selected Fixed Income Indices

Global and Regional Indices	Q3	YTD
Bloomberg Barclays U.S. Treasury Total Return	2.40%	7.71%
Bloomberg Barclays Global USD Credit Investment Grade Total Return	3.02%	12.97%
S&P USD Global Investment Grade Corporate Bond Index Total Return	2.90%	11.69%
S&P Mena Bonds & Sukuk Total Return	3.81%	12.68%
S&P Mena Sukuk Total Return	2.75%	9.46%

A performance trend comparison of regional and global bond indices:



## Update on Primary Issuances in MENA:

In addition to sovereign borrowing, major financial institutions have been very active in the primary market this quarter. MENA entities borrowed a total amount of USD 32.3 billion in Q3. Total issuances in the first three quarters reached USD 92.6 billion, a 15% increase on the same period of last year. Overall, books were well covered in the primary market despite increased regional tensions.

### Kuwait:

Burgan Bank issued a USD 500 million AT1 perpetual bond with a coupon rate of 5.75%.

Warba Bank issued a USD 500 million in 5-year senior sukuk issuance with a profit rate of 2.98%.

### Kingdom of Saudi Arabia:

The Saudi Arabian Government made a debut EUR denominated bond issuance in a two-tranche deal. Total size of both tranches was EUR 3 billion.

Samba Group borrowed USD 1 billion in a senior bond issuance maturing in 2024 with a coupon rate of 2.75%.

### United Arab Emirates:

The Abu Dhabi Government raised USD 10 billion in a three-tranche transaction.

DP World raised a total of USD 2.3 billion from a number of issuances with tenors ranging from 10 to 30 years. The aim of the issuances was to finance the recent acquisition of Topaz Marine and refinance a portion of the company's existing debt.

Emirates Strategic Investment Company (ESIC) borrowed USD 600 million in a debut 5-year sukuk with a profit rate of 3.94%.

Emaar borrowed USD 500 million with a 10-year sukuk deal. The issuance has a profit rate of 3.88%.

Bank of Sharjah issued a 5-year USD 600 million bond with a coupon rate of 4%.

National Bank of Fujairah launched a USD 350 million perpetual note to boost its additional T1 capital. The issuance has a coupon rate of 5.88%.

TAQA borrowed USD 500 million via a 30-year bond deal with a coupon rate of 4%.

Other issuances:

The Sultanate of Oman raised USD 3 billion in a two-tranche deal, with maturities at 2025 and 2029. The deals have coupon rates of 4.88% and 6%, respectively.

The Kingdom of Bahrain raised USD 2 billion in a two-tranche deal, through a sukuk maturing in 7.5 years and a 12-year conventional bond. The sukuk issuance carries a profit rate of 4.5% and the conventional bond has a coupon rate of 5.63%.

Ahli Bank of Qatar borrowed USD 500 in a 5-year bond deal. The issuance has a coupon rate of 3.13%.

Regional Primary Market Highlights		
Market	Q3	YTD
MENA Bond & Sukuk (in bn of USD)	32.3	92.6
MENA Sukuk (in bn of USD)	4.7	12.8

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