# Economic Update

NBK Economic Research Department I 19 October 2021

Debt markets

# Global sovereign yields rise on higher inflation and expectations of tighter Fed policy ahead


> Saqer Al-Zayed
Economist
+965 2259 5655
SaqerAlZayed@nbk.com


## Highlights

- **Global sovereign bond yields broadly trended higher in 3Q21 as investors priced in higher inflation and Fed tapering.**
- **GCC bond yields tracked US treasury yields higher, despite increasing oil prices and improved fiscal positions.**
- **Future yield movements will depend on Fed policy, the economic outlook, inflation, oil prices and Covid developments.**
- **GCC debt issuance was strong in 3Q21, totalling $27.2 billion, bringing the total debt issued (as of end 3Q21) to $81 billion.**
- **GCC issuance in 2021 was supported by deficit financing needs and low borrowing costs, but may moderate in 2022 on higher oil prices and easing fiscal pressures.**

## Sovereign yields rise on expectations of tighter policy

Global medium-term sovereign bond yields broadly trended higher in 3Q21 as investors priced in higher inflation expectations and signals by the Fed that it would start tapering its bond purchasing in the near future, possibly by the end of the year. GCC bond yields tracked US treasury yields higher, despite higher oil prices and better fiscal positions, maintaining a favorable spread against a higher US risk-free rate.

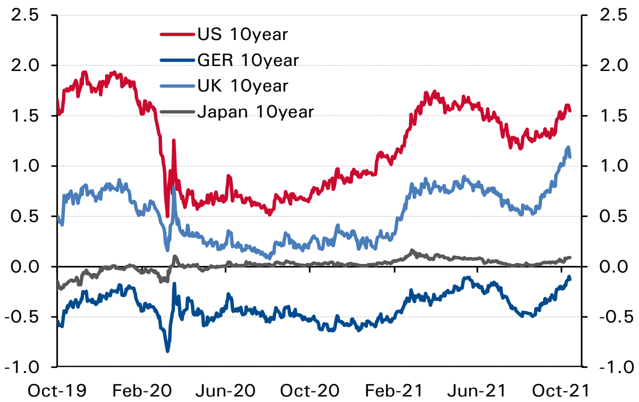
Meanwhile, GCC debt issuance was strong in 3Q21, at around $27 billion, with a large part coming from quasi-sovereign Qatar Petroleum, which made the largest emerging market debt offering so far this year at $12.5 billion. Total GCC issuance in the first three quarters of 2021 remained elevated at $81 billion, though down slightly (4.3%) from the same period last year. The strong debt issuance came despite lower borrowing needs amid higher oil prices and improving fiscal positions, likely encouraged by still relatively low borrowing costs and refinancing needs.

## UK gilts and US treasuries led yield increases in 3Q21

Global medium-term sovereign bond yield increases were led by the UK 10-year gilt, which reached 1.1% (+31 bps q/q) in early October for the first time since March 2020 amid expectations of tighter policy amid rising price pressures (partly due to economic recovery reflation and supply chain bottlenecks, along with higher energy and commodity prices). The yield surge came despite an ongoing bond-purchase program, which normally applies downward pressure on yields due to stronger demand. Meanwhile the US 10-year treasury yield gained 8 bps q/q, reaching 1.5% in late September, the highest since June. Similarly, the higher yield was driven by expectations of tighter policy and higher inflation. The German bund and Japanese bonds were little changed over the quarter. Growth prospects, Fed policy, inflation expectations and Covid uncertainty, will continue to dictate bond yield movements going forward. The US 10-year treasury yield has further upside potential once the Fed's asset purchase tapering actually starts possibly later this year, thereby reversing the impetus that brought yields to historical lows in 2020. The case for higher yields is stronger should inflation remain persistenty above the Fed's target range, and should economic growth prove resilient, ushering in a sooner-than-expected rate hike. On the other hand, we could see the yield uptrend reverse course in response to a softer economic outlook due to ongoing supply constraints, virus-related risks, volatility in riskier assets (such as equities) or should inflation prove to be more transitory.

**Chart 1: Global benchmark yields**

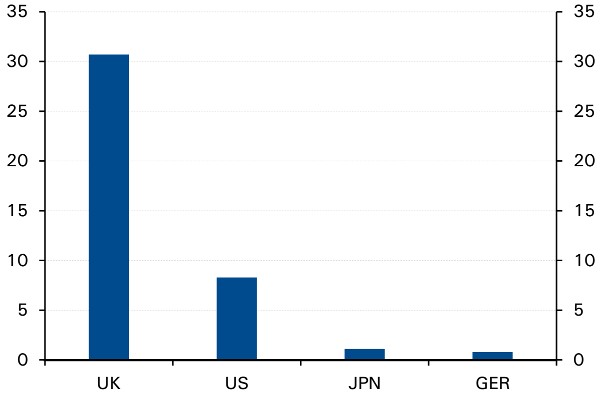
(%)




Source: Refinitiv, as of October 15

Chart 2: Change in global 10-year yields in 3Q21

(basis points, q/q)




Source: Refinitiv

## GCC yields track global peers higher in 3Q21

GCC medium-term sovereign bonds saw higher yields in 3Q21, tracking the yield increases in global markets. Yields for GCC sovereigns typically depend on two main factors: 1) the inherent risk of lending to these sovereigns, which varies with the overall macroeconomic and geopolitical climate; 2) the yield movements of their global counterparts. In 3Q21, the uptrend in GCC yields was centered on the latter reason. Higher "risk-free" global rates have led to investors expecting a higher return from riskier GCC debt, leading to reduced demand and a subsequent drop in bond pricing, i.e. higher yields. Meanwhile, regional-specific risk factors have generally played a more limited role, with the economic backdrop improving amid higher oil prices, better public finances, good vaccine progress and restored business activity.

GCC yield increases were led by Bahrain, likely affected (in addition to the global factors) by previous credit rating outlook downgrades by Moody's and S&P (B2 negative and B+ negative, respectively). Yield gains among other GCC members were more modest (6-14 bps), while Kuwait's yield rose a marginal 2 bps. Looking ahead, GCC yield prospects will continue to depend on the regional/global economic recovery, direction of global yields, virus containment developments, in addition to oil price movements.

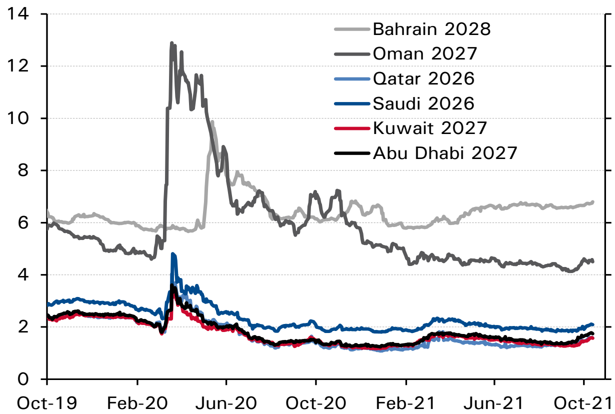
## GCC issuance remains strong despite higher oil prices

GCC debt issuance was strong in 3Q21, amounting to $27.2 billion, bringing the total debt issued so far this year (as of end 3Q21) to $81 billion, a slight decrease from the same period last year ($86 billion). Issuance in 3Q21 was dominated by Qatari and UAE sovereigns and quasi-sovereigns, with Qatar Petroleum making the largest EM debt offering this year to finance its gas expansion plans: in July, it issued $12.5 billion in Eurobonds in 4-tranches with maturities of 5,10,20, and 30 years. The issue was met with strong demand, with around $40 billion in orders, as the pricing was attractive to investors, with the 10-year yielding around 90 bps over US treasuries and about 25 bps over similar-maturity secondary market yields. More recently, the UAE made its first debt offering at the federal level, with $4 billion issued, partly earmarked for capital spending on infrastructure, and was met with strong demand.

GCC issuance could remain reasonable in the remainder of 2021 given deficit financing needs and as sovereigns take advantage of still-low borrowing costs – although current higher oil prices will have reduced borrowing requirements somewhat. Looking ahead to 2022, issuance will be affected by the path of oil prices and also progress on fiscal consolidation, which is still a key area of focus in many countries. In addition, the possibility of higher yields due to tighter expected central bank policy could push GCC yields higher over the medium term, increasing the borrowing costs and leading to a softer pace of GCC debt issuance.

Chart 3: Medium-term GCC sovereign yields

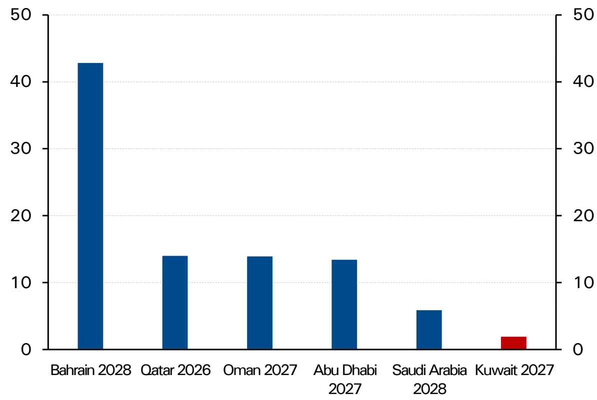
(%)




Source: Refinitiv, as of October 15

Chart 4: Change in GCC medium-term sovereign yields

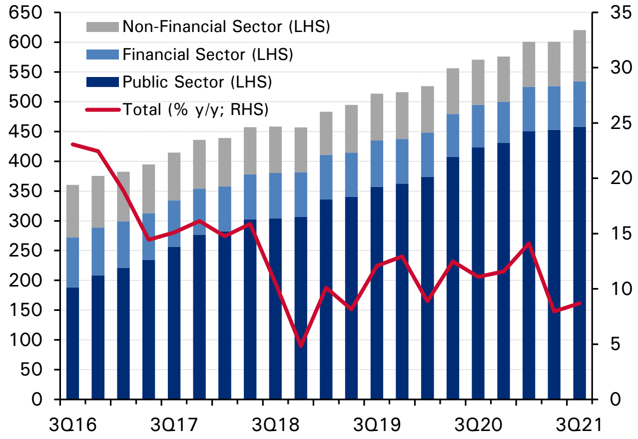
(basis points, 3Q21, q/q)




Source: Refinitiv

### Chart 5: GCC gross debt outstanding

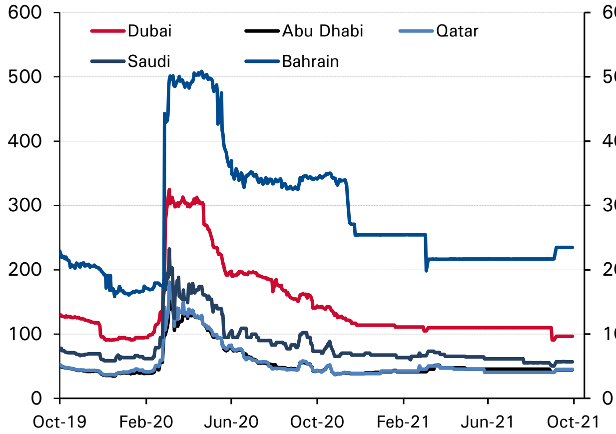
($ billion)




Source: Refinitiv

### Chart 6: Five-year credit default swap rates

(Basis points)




Source: Refinitiv as of October 15

### Table 1: New GCC issuance by sector ($ billion)

| | 4Q-18 | 1Q-19 | 2Q-19 | 3Q-19 | 4Q-19 | 1Q-20 | 2Q-20 | 3Q-20 | 4Q-20 | 1Q-21 | 2Q-21 | 3Q-21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Public Sector | 5.9 | 32.5 | 10.8 | 23.6 | 8.1 | 17.3 | 35.4 | 22.3 | 12.4 | 25.4 | 14.9 | 22.9 |
| Financial Sector | 1.9 | 2.1 | 3.6 | 5.3 | 1.8 | 4.1 | 1.6 | 4.4 | 2.1 | 6.0 | 3.3 | 4.3 |
| Non-Financial Sector | 0.5 | 0.0 | 12.6 | 0.8 | 0.8 | 0.0 | 1.0 | 0.0 | 0.8 | 1.5 | 2.4 | 0.0 |
| Total | **8.3** | **34.6** | **27.0** | **29.6** | **10.8** | **21.4** | **38.0** | **26.7** | **15.2** | **32.9** | **20.6** | **27.2** |

### Table 2: New GCC issuance by country ($billion)

| | 4Q-18 | 1Q-19 | 2Q-19 | 3Q-19 | 4Q-19 | 1Q-20 | 2Q-20 | 3Q-20 | 4Q-20 | 1Q-21 | 2Q-21 | 3Q-21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bahrain | 1.0 | 0.0 | 0.0 | 3.3 | 0.5 | 0.1 | 2.8 | 3.2 | 0.0 | 3.1 | 0.9 | 0.4 |
| Kuwait | 0.7 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.2 | 0.0 |
| Oman | 1.8 | 0.0 | 0.4 | 3.3 | 0.5 | 0.4 | 0.5 | 1.0 | 3.8 | 6.1 | 3.3 | 0.0 |
| Qatar | 1.5 | 15.6 | 5.1 | 4.7 | 0.4 | 3.8 | 11.0 | 1.6 | 0.0 | 1.7 | 2.0 | 17.9 |
| KSA | 0.0 | 16.3 | 17.8 | 3.6 | 3.6 | 13.6 | 8.0 | 12.3 | 8.3 | 17.2 | 3.8 | 2.5 |
| UAE | 3.4 | 2.7 | 3.8 | 14.7 | 5.3 | 3.5 | 15.7 | 8.5 | 2.7 | 4.9 | 10.4 | 6.3 |
| **GCC** | **8.3** | **34.6** | **27.0** | **29.6** | **10.8** | **21.4** | **38.0** | **26.7** | **15.2** | **32.9** | **20.6** | **27.2** |

Source: Refinitiv, data as of October 5, 2021
*Debt issuance figures comprise notes and bonds issued in domestic and Eurobond (USD denominated) markets with tenors of one year or more (excludes short-term bills).

## Head Office

**Kuwait**
National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

## International Network

**Bahrain**
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

**United Arab Emirates**
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

**Saudi Arabia**
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

**Jordan**
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

**Lebanon**
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

**Iraq**
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

**Egypt**
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

**United States of America**
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

**United Kingdom**
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

**France**
National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

**Singapore**
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

**China**
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

## NBK Capital

**Kuwait**
NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

**United Arab Emirates**
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

## Associates

**Turkey**
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353