

# Economic Update

NBK Economic Research Department | 26 April 2022



## Debt markets

# Sovereign bond yields soar amid high inflation and increasingly hawkish Fed policy

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

### Highlights

- Global bond yields surged to multi-year highs in 1Q22 as investors priced in high inflation and an aggressive policy outlook.
- Yield increases in 1Q22 were led by the US 10-year treasury, rising further in April to more than a 3-year high of 2.92%.
- Yields could rise even more given factors such as rate-hike expectations, persistent inflation, and the likely start of QT.
- GCC medium-term sovereign bond yields tracked their global counterparts higher in 1Q22, led by Saudi Arabia and Qatar.
- GCC bond and sukuk issuance fell sharply in 1Q22 to \$11 billion, the lowest since 4Q19, from around \$20 billion in 4Q21.
- GCC issuance may moderate this year from the record levels of 2021 on higher oil prices and easing fiscal pressures.

### Fed hawkishness and inflation drive yields higher in 1Q22

Global medium-term sovereign bond yields rose to multi-year highs in 1Q22 as investors priced in persistently high inflation and an increasingly more hawkish monetary policy outlook. US inflation reached a four-decade high of 8.5% y/y in March, stoked by soaring food and energy prices due to the fallout from the Russia-Ukraine war, and reinforcing steep US rate-hike expectations of 200 bps or more in 2022. The Fed raised interest rates by 25 bps in March, the first hike since 2018, while tapering of unprecedented Fed asset purchases (which concluded in March) and investors' sell-off of bonds in search of positive real returns were also contributing factors.

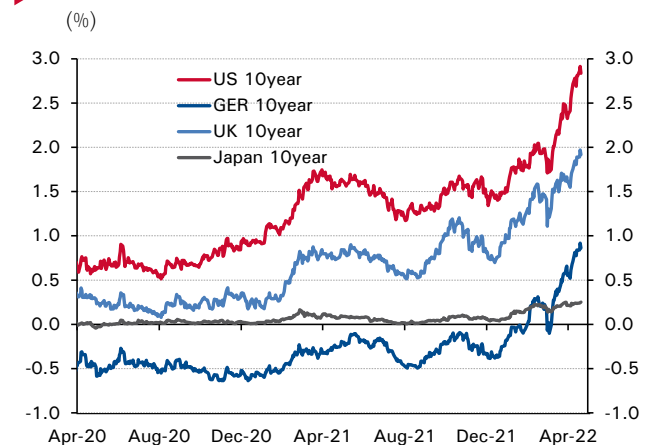
GCC sovereign yields tracked their global counterparts higher, despite a lower risk profile thanks to higher oil prices and improved fiscal positions. Yields continued to rise through mid-April, and will likely maintain the uptrend in the near term assuming inflation remains high and the Fed maintains its hawkish stance. On the other hand, signs that US core inflation is slowing meaningfully could soften the Fed's rate hike stance and ease the upward pressure on yields in coming months. Meanwhile, GCC debt issuance eased to \$11 billion\* in 1Q22 from around \$20 billion in 4Q21, coming mostly from Saudi sovereign sukuk. Looking ahead, GCC debt issuance should moderate in 2022 following the record level of 2021 (\$105 billion) given much lower budgetary financing needs (due to higher oil prices) and rising borrowing costs.

### Global yields surged to multi-year highs in 1Q22

Movements in benchmark bond yields were broadly positive in 1Q22, driven by steep inflation and aggressive rate-hike prospects. Yield increases were led by the US 10-year treasury, up 83 bps q/q to 2.3% before surging further to more than a 3-

year high of 2.92% (April 19). The German Bund and UK Gilt yields rose 73 and 64 bps q/q, respectively. Even the typically stable Japanese bond was no exception to global yield-rising pressures, up 14 bps q/q to 0.24%, the highest since the Bank of Japan implemented its zero yield target in 2016, prompting the bank to enforce a cap on yields of 0.25% in March which consequently weighed down on the Yen.

▶ Chart 1: Global benchmark yields

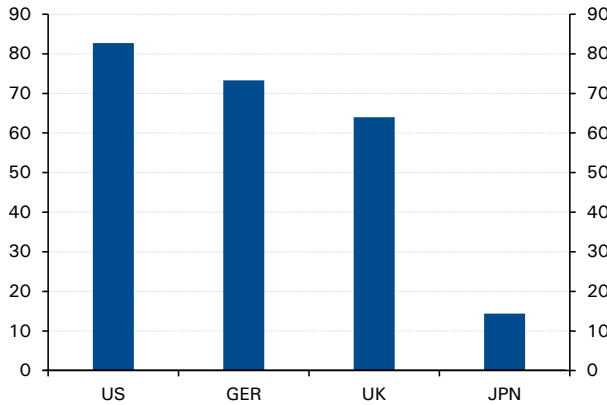


Source: Refinitiv, as of April 20

Growth prospects, Fed policy, and inflation expectations will continue to drive bond yield movements going forward. The US 10-year treasury yield has further upside potential given the multiple rate hikes on the horizon, the end of quantitative easing in March and the nearly certain start of quantitative tightening in May. The case for higher yields will be stronger should inflation remain above the Fed's target, and should economic growth prove resilient, thereby justifying tighter Fed policy. On the other hand, yield increases could be limited by possibly softer inflation (with signs that core inflation is maybe near its

peak), and should growth prove to be less resilient. A shrinking risk premium versus other assets like equities, and persistent virus risks are additional factors that may curb the rise in yields.

**Chart 2: Change in global 10-year yields in 1Q22**  
(basis points, q/q)



Source: Refinitiv

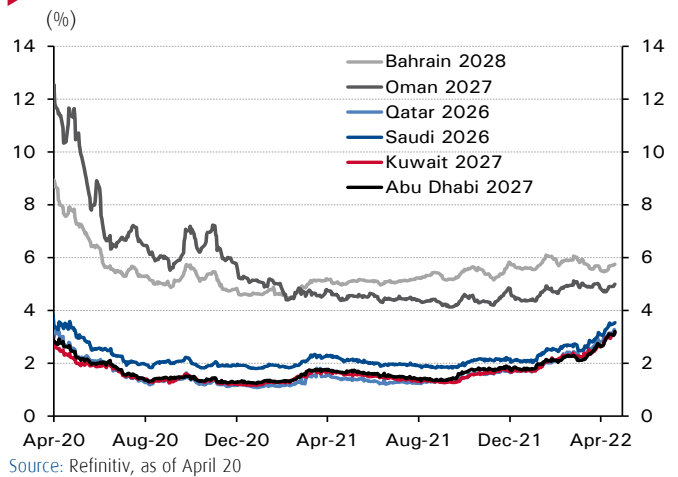
### GCC sovereign yields tracked global yields higher

GCC medium-term sovereign bond yield increases accelerated in 1Q22, influenced by the rise in global bond yields and given that most GCC central banks raised interest rates, in line with the Fed's hike in March. Quarterly yield increases were led by Qatar and Saudi Arabia, up 108 bps and 107 bps q/q, respectively, trailed by Kuwait and Abu Dhabi at 95 and 87 bps q/q respectively. Meanwhile Oman saw a relatively modest yield increase of 42 bps q/q, likely curbed by an improvement in key fiscal metrics leading to several credit outlook upgrades since October, most recently a rating upgrade by S&P to BB- stable in April. Bahrain bonds, already the highest-yielding among GCC countries, and given the country's improved economic outlook, were little changed. GCC yield prospects will continue to depend on the regional/global economic recovery, direction of global yields, virus developments, in addition to oil price movements. GCC yields could continue to rise in 2022 in line with global yields which are poised for further increases given factors such as rate-hike expectations and continued inflationary pressures. On the other hand, elevated oil prices and a much improved regional fiscal and economic outlook could lessen the potential for large increases in yields, given lower risks and financing needs.

### GCC issuance fell sharply in 1Q22 after a record 2021

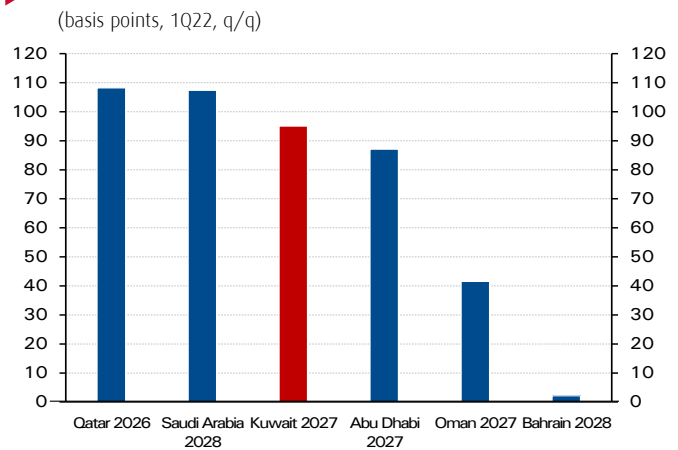
GCC domestic and eurobond (USD) issuance eased to \$11 billion in 1Q22, the lowest since 4Q19 from around \$20 billion in 4Q21. The lower issuance coupled with a large volume of maturing debt (\$23 billion) saw regional gross outstanding debt fall to just under \$600 billion, the first quarterly decline since 2018. The exceptionally-low issuance could be owed to the volatility in debt markets and as regional yields crept higher.

**Chart 3: Medium-term GCC sovereign yields**



Source: Refinitiv, as of April 20

**Chart 4: Change in GCC medium-term sovereign yields**



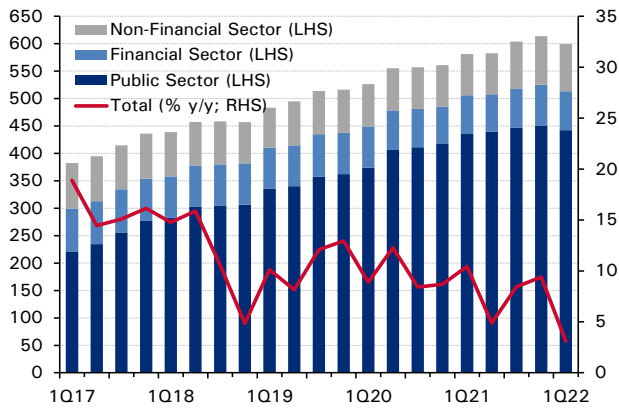
Source: Refinitiv

The reduced/absence of deficit financing needs amid elevated oil prices and the commitments to medium-term fiscal consolidation could see issuance moderate in 2022 from the record \$105 billion in 2021. Further, a brisk pace of Fed policy normalization and regional central banks moving in parallel will likely push GCC yields higher over the medium term, increasing borrowing costs and contributing to a softer pace of GCC debt issuance.

Saudi Arabian sovereign Sukuk comprised the bulk of regional issuance in 1Q22 amounting to \$7 billion in two tranches of 8 and 12 years in January, as part of its National Debt Management Center (NDMC) sukuk issuance program. According to the NDMC, the transaction is part of the initiative to unify the Kingdom's domestic issuances under the sukuk issuance program in Saudi riyals, which involved the early redemption of bonds and sukuk in excess of SR25 billion (\$6.6 billion). Further, UAE sovereign/quasi-sovereign bond issuance amounted to \$3.6 billion, with \$1.5 billion issued by Mamoura Diversified Holding Co. in March. Additionally, Bahrain issued \$400 million in a single tranche 3-year bond, also in March. Kuwaiti debt issuance will likely remain muted given the still-pending debt law which will allow it to tap international and local debt markets, though unlikely in the near future given the ongoing political deadlock.

▶ **Chart 5: GCC gross debt outstanding**

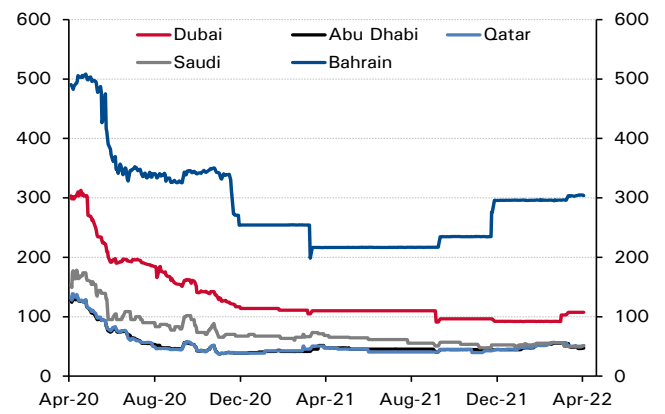
(\$ billion)



Source: Refinitiv

▶ **Chart 6: Five-year credit default swap rates**

(Basis points)



Source: Refinitiv as of April 20

▶ **Table 1: New GCC issuance by sector (\$ billion)**

	2Q-19	3Q-19	4Q-19	1Q-20	2Q-20	3Q-20	4Q-20	1Q-21	2Q-21	3Q-21	4Q-21	1Q-22
Public Sector	10.8	23.6	8.1	17.3	35.4	22.3	12.4	25.4	14.9	12.1	14.0	9.7
Financial Sector	3.6	5.3	1.8	4.1	1.6	4.4	2.1	6.0	3.3	4.3	5.0	1.3
Non-Financial Sector	12.6	0.8	0.8	0.0	1.0	0.0	0.8	1.5	2.4	12.5	0.8	0.0
<b>Total</b>	<b>27.0</b>	<b>29.6</b>	<b>10.8</b>	<b>21.4</b>	<b>38.0</b>	<b>26.7</b>	<b>15.2</b>	<b>35.4</b>	<b>20.6</b>	<b>28.9</b>	<b>19.8</b>	<b>11.0</b>

▶ **Table 2: New GCC issuance by country (\$billion)**

	2Q-19	3Q-19	4Q-19	1Q-20	2Q-20	3Q-20	4Q-20	1Q-21	2Q-21	3Q-21	4Q-21	1Q-22
Bahrain	0.0	3.3	0.5	0.1	2.8	3.2	0.0	3.1	0.9	0.4	2.5	0.4
Kuwait	0.0	0.0	0.5	0.0	0.0	0.0	0.5	0.0	0.2	0.0	0.0	0.0
Oman	0.4	3.3	0.5	0.4	0.5	1.0	3.8	6.1	3.3	0.0	0.0	0.0
Qatar	5.1	4.7	0.4	3.8	11.0	1.6	0.0	1.7	2.0	17.9	1.1	0.0
KSA	17.8	3.6	3.6	13.6	8.0	12.3	8.3	17.2	3.8	2.5	11.0	7.0
UAE	3.8	14.7	5.3	3.5	15.7	8.5	2.7	4.9	10.4	8.0	5.2	3.6
<b>GCC</b>	<b>27.0</b>	<b>29.6</b>	<b>10.8</b>	<b>21.4</b>	<b>38.0</b>	<b>26.7</b>	<b>15.2</b>	<b>32.9</b>	<b>20.6</b>	<b>28.9</b>	<b>19.8</b>	<b>11.0</b>

Source: Refinitiv

\*Debt issuance figures comprise notes and bonds issued in domestic and Eurobond (USD denominated only) 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