

Divergence of GCC and global yields in 4Q19 while regional issuance moderated

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Highlights

- Global benchmark bond yields increased in 4Q19, mainly on easing trade tensions and a stronger growth outlook.
- GCC medium-term sovereign yields were mostly stable in 4Q19, supported by solid international demand.
- Yields have fallen sharply so far this year, with the US 10-year yield touching all-time lows on rising Coronavirus fears.
- GCC issuance moderated in 4Q19 to stand at \$11 billion as total GCC outstanding debt reached \$517 billion by end-2019.

Global and GCC yields diverged in 4Q19

An improved growth outlook, better economic data, easing trade tensions, and a more neutral Fed saw benchmark global bond yields trend higher in 4Q19. This followed a downtrend in yields in previous quarters driven by central bank dovishness, sluggish growth and trade uncertainty. GCC sovereign yields, which typically track their global counterparts, were mostly unchanged likely on the back of continued international interest and demand for regional debt, especially after the recent EMBI benchmark index inclusion, and as risk-return profiles remain attractive.

Looking forward, and following significant year-to-date decreases, further declines in yields are still possible given certain risks, which include an unexpected resurgence of trade tensions and coronavirus-related risks and their potential impact on global growth.

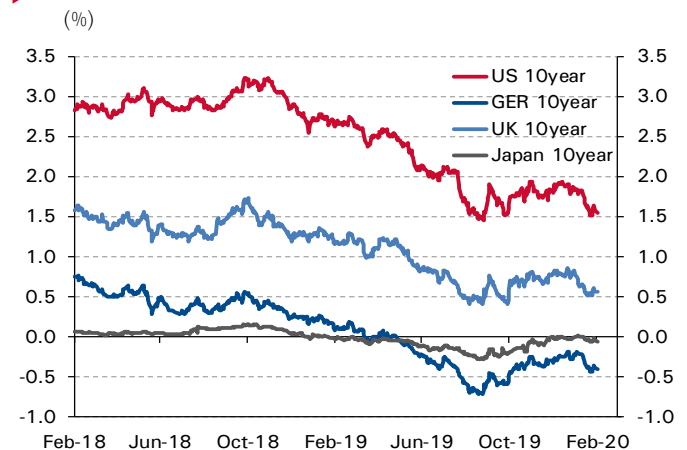
GCC debt issuance was moderate in 4Q19 relative to previous quarters, standing at around \$11 billion compared to circa \$30 billion in 3Q19. Issuances have moderated possibly due to refinancing needs being already completed during the year. Issuances in 4Q19 were dominated by sovereigns and quasi-sovereigns in KSA and UAE, respectively.

Global yields trend up in 4Q19 on improved outlook

Global benchmark bond yields rose in 4Q19, largely on easing trade tensions after the striking of a Phase 1 US-China trade deal in November, which was signed on January 15 2020. This led to an improved global growth outlook, prompting central banks to pause rate cuts and adopt a neutral monetary stance, thereby lessening the pressure on yields from dovish monetary expectations. Confidence was also helped by a robust US labor market and a resilient US consumer sector. The improved

sentiment was reflected in investors' risk-on attitude as global equities rallied in 4Q19 in sync with rising bond yields. The increase in bond yields was led by Germany's 10-year Bund (+37 bps q/q) followed by the UK gilt (+34 bps), the US 10-year (+24 bps) and finally Japanese sovereigns (+20 bps). While sovereign bond yields were generally lifted by an improved global economic climate, UK gilts in particular were also supported by lower political uncertainty on the back of the breakthrough in Brexit discussions and a decisive general election result.

▶ Chart 1: Global benchmark yields

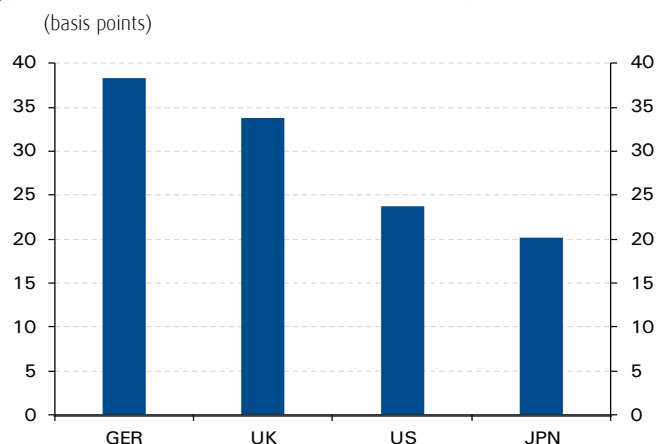


Source: Refinitiv

The developments in terms of the Coronavirus will be a main factor impacting the direction of yields going forward. In addition, possible deterioration in trade discussions, political uncertainty from the upcoming US presidential election, as well as any escalation in tensions on the US-Iran front, may weigh on the global outlook and could impact yields negatively. Indeed, benchmark bond yields have reversed course so far in 2020, with the US 10-year down around 74 bps as of end-February to stand

at an all-time low of 1.13%. Additional factors such as a maturing business cycle and higher stock market valuations (especially in the US) also have the potential to weigh down on yields. On the other hand, if Coronavirus risks subside then yields could increase from the record-lows that they have reached.

Chart 2: Change in global 10-year yields (q/q in 4Q19)



Source: Refinitiv

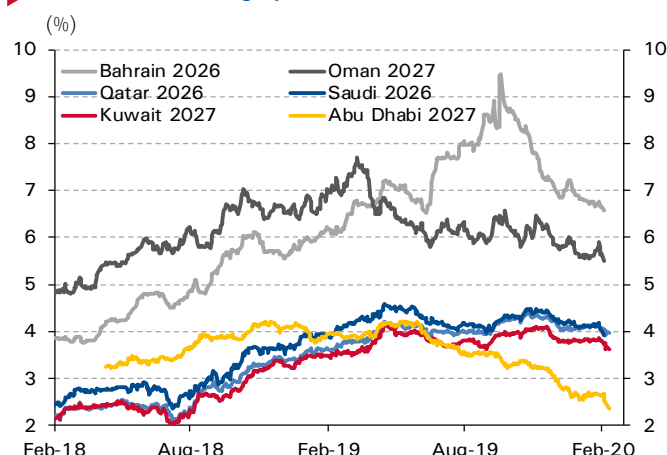
GCC yields mostly steady on solid international demand

GCC medium-term sovereign yields diverged from global trends in 4Q19, with yields in four out of six GCC countries broadly steady in 4Q19. Continued international interest in GCC debt likely dampened a potential increase in yields, driven by attractive risk-adjusted returns and inclusion of most GCC sovereigns in the global benchmark JP Morgan Emerging Market Bond Index (EMBI).

Oman and Bahrain witnessed a second consecutive quarter of sharp declines in sovereign bond yields, which decreased by 79 and 82 bps, respectively. The two countries continued to benefit from improved outlooks, and initially had much higher yields compared to their peers which gave them more room to fall. The two bonds are typically more volatile than their peers and yield/price movements are usually more pronounced.

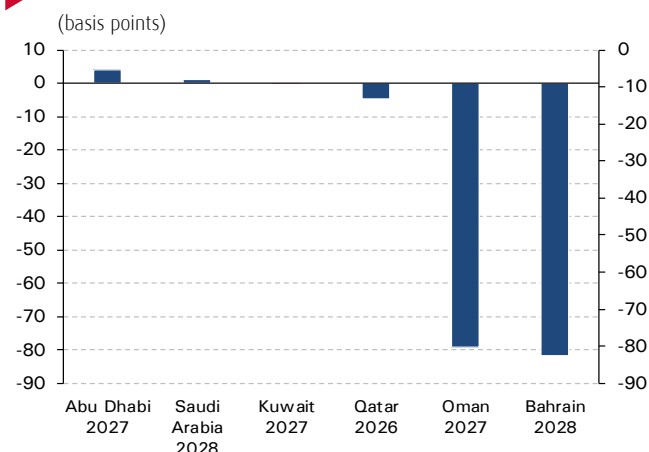
While GCC sovereign yields will continue to be impacted by the direction of global yields, there is another important factor that will influence the direction of GCC sovereign yields. Given the current global macroeconomic outlook, oil prices are expected to remain soft, which may increase the implied risk of GCC sovereign instruments and push their yields higher. Finally, any major adverse developments in terms of geopolitical risks will most likely drive up yields.

Chart 3: GCC sovereign yields



Source: Refinitiv

Chart 4: Change in GCC sovereign yields (q/q in 4Q19)



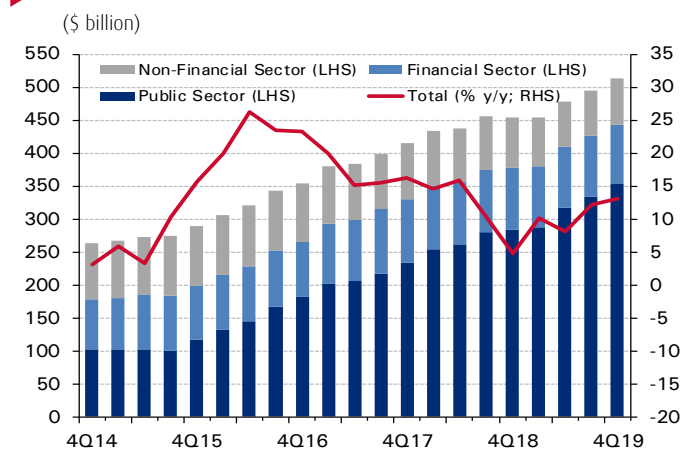
Source: Refinitiv

Moderate GCC issuance in 4Q19 wraps up a strong year

GCC issuance (both domestic and international) in 4Q19 amounted to \$11 billion, including \$3.9 billion in Sukuk. This is modest in comparison to prior quarters, but gross issuance throughout 2019 was solid reaching \$102 billion, and total outstanding debt (domestic and international) rose to \$517 billion at the end of 2019 from close to \$457 billion one year ago. Noteworthy is a \$3.5 billion issuance in November, in three tranches with coupons ranging from 2.5% to 3.7% by Mamoura Diversified Global Holding, a UAE quasi-sovereign. Issuance may have eased in 4Q on the back of a lower need to refinance after the exceptionally strong run earlier in the year, driven in part by a large volume of maturities: around \$43 billion in GCC bonds and Sukuk matured in 2019. With generally expansionary budgets and low borrowing costs, issuance has regained traction so far this year. More than \$11 billion had been issued as of mid-February, most notable of which was a three-tranche \$5 billion sovereign bond issuance by Saudi Arabia as well as a \$3 billion

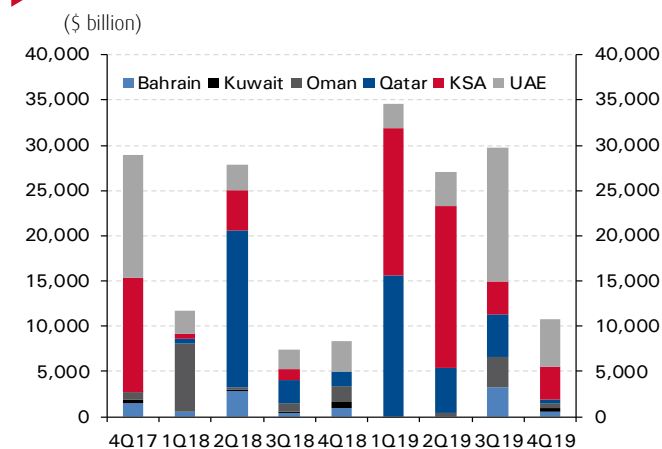
issuance by QNB in Qatar.

► **Chart 5: GCC gross issuance by sector**



Source: Refinitiv

► **Chart 6: GCC new issuance by country**



Source: Refinitiv

► **Table 1: New GCC Issuance by sector (\$ billion)**

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Public Sector	23.8	8.0	25.9	5.8	5.9	32.5	22.8	23.6	8.1
Financial Sector	2.0	3.1	1.3	1.0	1.9	2.1	3.6	5.4	1.8
Non-Financial Sector	3.2	0.6	0.8	0.8	0.5	0.0	0.6	0.8	0.8
Total	28.9	11.7	27.9	7.5	8.3	34.6	27.0	29.7	10.8

Source: Refinitiv

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Bahrain	1.5	0.5	2.8	0.4	1.0	0.0	0.0	3.3	0.5
Kuwait	0.3	0.0	0.2	0.1	0.7	0.0	0.0	0.0	0.5
Oman	0.9	7.5	0.3	0.9	1.8	0.0	0.4	3.3	0.5
Qatar	0.0	0.5	17.3	2.6	1.5	15.6	5.1	4.7	0.4
KSA	12.6	0.5	4.5	1.3	0.0	16.3	17.8	3.6	3.6
UAE	13.6	2.6	2.8	2.2	3.4	2.7	3.8	14.8	5.3
GCC	28.9	11.7	27.9	7.5	8.3	34.6	27.0	29.7	10.8

Source: Refinitiv

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