

Economic Update

NBK Economic Research Department | 6 February 2022

Debt markets

Inflation and imminent monetary policy normalization push sovereign yields higher

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

Highlights

- Global bond yields reversed course to end Q4 little changed q/q on surging inflation and prospects of tighter monetary policy.
- The uptrend extended well into January, with the US 10-year reaching a 2-year high of 1.9% before recently easing.
- GCC bond yields saw sharper increases with a widening spread versus US treasuries perhaps reflecting a higher risk premium.
- 4Q21 saw \$20 billion in bond and Sukuk issuances in the GCC, leading to a record \$105 billion in issuances for the full year.
- GCC issuances in 2021 were supported by deficit financing needs and low borrowing costs, but may moderate in 2022 on higher oil prices, rising borrowing costs and easing fiscal pressures.

Rate hike prospects and inflation drive yields higher

Global medium-term benchmark bond yields were in decline early on in 4Q21, but mostly reversed course to end the quarter little changed primarily driven by surging inflation and prospects of tighter monetary policy. Diminishing bond purchases by central banks, scheduled to end entirely in March in the US, also likely contributed to higher bond yields, and possibly to a lesser extent, a stronger dollar. The uptrend in yields extended well into January, with the US 10-year reaching a two-year high of 1.9% before recently easing. GCC bond yields saw sharper increases, as the historically narrow spreads versus US treasuries in 2021 started to normalize amid a more hawkish Fed.

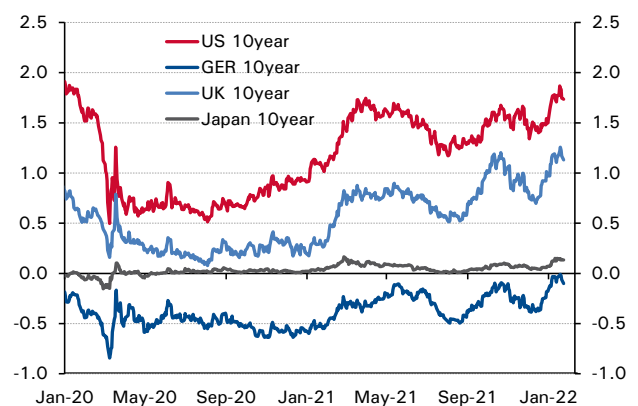
With issuers mostly having met their targets for the year, GCC Eurobond and domestic debt issuances eased in Q4, totaling around \$20 billion. But 2021 was a strong year overall, with a record \$105 billion in bonds and sukuk issued*, the latter seeing a notable increase amid growing investor interest and demand. The overall figure, up slightly from 2020, reflects a continued trend of elevated regional issuance amid refinancing needs and fiscal deficits, though the latter has eased significantly thanks to higher oil prices, with several GCC countries expected to return to surplus in FY22/23. Still, issuance will likely remain relatively strong in 2022, amid still-low but increasing borrowing costs and ongoing financing needs in some countries.

Global yields whipsaw in Q4 to end quarter little changed

Movements in benchmark bond yields were mixed but little changed as of the end of Q4. Declines were seen earlier in the quarter amid increased policy and virus uncertainty and softer growth, but picked up in November on easing virus concerns and more importantly, as the Fed signaled multiple interest rate

hikes in 2022 to quell rising inflation. Though yields rose steadily since November, 10-year UK gilts and US treasuries ended the quarter with modest declines of 5.2 bps and 2.9 bps q/q respectively. Meanwhile Japanese and German sovereign debt yields ended the quarter up marginally, by 0.5 bps and 1.6 bps respectively. The uptrend extended well into January as investors continued to price in a hawkish Fed stance, QE tapering continued, and inflation hit new highs.

▶ **Chart 1: Global benchmark yields**
(%)

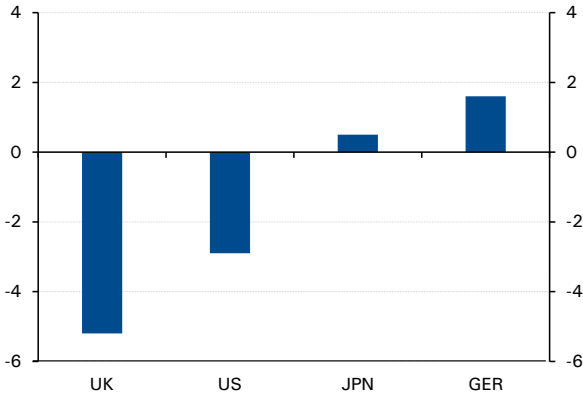


Source: Refinitiv, as of January 24

Growth prospects, Fed policy, and inflation expectations will be the main drivers of bond yield movements going forward. The US 10-year treasury yield has further upside potential once the Fed's asset purchase tapering concludes in March paving the way for the first of multiple rate hikes this year, which normally have a yield lifting effect. The case for higher yields will be stronger should inflation remain persistently way above the Fed's target, and should economic growth prove resilient,

prompting a more aggressive monetary policy stance by the Fed. On the other hand, yields could ease in response to lower inflation numbers and should growth prove to be less resilient, in addition to volatility in riskier assets (such as equities), and the possibility of a worsening virus backdrop.

Chart 2: Change in global 10-year yields in 4Q21
(basis points, q/q)



Source: Refinitiv

GCC sovereign yields mostly increased in 4Q21

GCC medium-term sovereign bond yields, with the exception of Oman, rose in 4Q21, influenced by the rise in global bond yields that started in November. The rise in GCC yields accelerated in January, leading to a wider spread versus US treasuries, perhaps reflecting a higher risk premium in response to a more hawkish Fed. Quarterly yield increases were led by Qatar and Kuwait, up 32 bps and 29 bps q/q, respectively. Meanwhile Abu Dhabi, Bahrain, and Saudi Arabia saw relatively modest q/q gains of 16, 8, and 2 bps, respectively. Oman bucked the trend, down 9 bps q/q supported by an improvement in key fiscal metrics including debt-to-GDP and the fiscal deficit, as well as an October outlook upgrade to 'stable' and 'positive' by Moody's and S&P, respectively, followed by a similar upgrade by Fitch in December. Similarly in Saudi Arabia, an improved operating environment which led to an outlook upgrade to 'stable' by Moody's likely curbed potential yield increases. Meanwhile Bahrain, whose bonds yield the highest among peers and are typically less resilient to shocks, saw its credit default swap rate surge, likely affected by higher volatility and uncertainty in global markets.

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 yields could continue to rise in 2022 in line with global yields which are poised for further increases given factors such as monetary policy normalization and likely continued inflationary pressures.

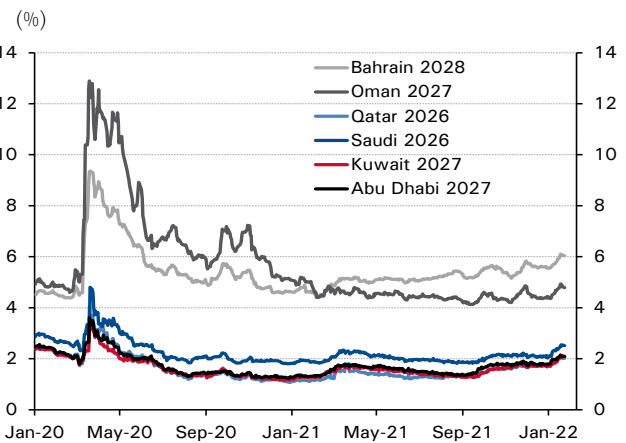
2021 marks a record year for GCC debt issuance

GCC Eurobond and domestic issuance eased in 4Q21 to around

\$20 billion from \$29 billion in 3Q21. The fourth quarter slowdown is seasonal and most likely due to sovereigns having met their targets for the year. Issuances were dominated by sovereigns, over half of which came from Saudi Arabia (\$11 billion) trailed by the UAE (\$5.2 billion). Notable offerings included the UAE's first issuance at the federal level, raising \$4 billion in three tranches, with over \$22.5 billion in orders. Saudi Arabia issued \$8.8 billion as part of an early redemption for Sukuk maturing in 2022. Overall, 2021 was a record year for regional issuance, amounting to around \$105 billion, raising gross outstanding debt to an all-time high of \$614 billion as issuers took advantage of historically-low borrowing costs.

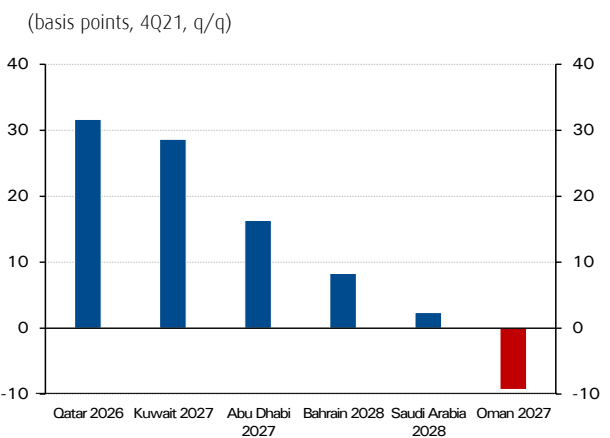
GCC issuance could remain relatively strong in 2022 on continued financing needs, but will likely ease amid higher oil prices and smaller deficits. Further, a brisk pace of Fed policy normalization could push GCC yields higher over the medium term, increasing borrowing costs and leading to a softer pace of GCC debt issuance.

Chart 3: Medium-term GCC sovereign yields



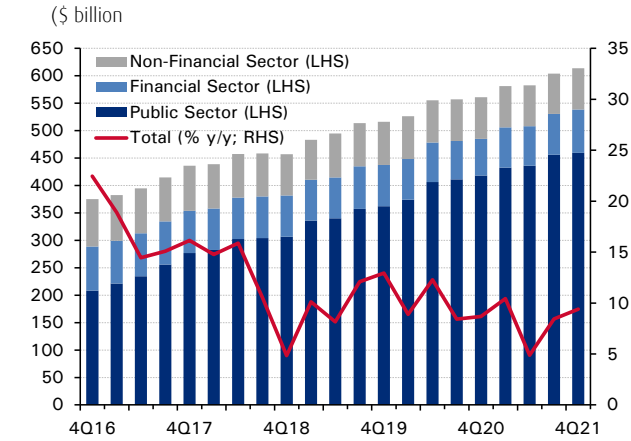
Source: Refinitiv, as of January 24

Chart 4: Change in GCC medium-term sovereign yields

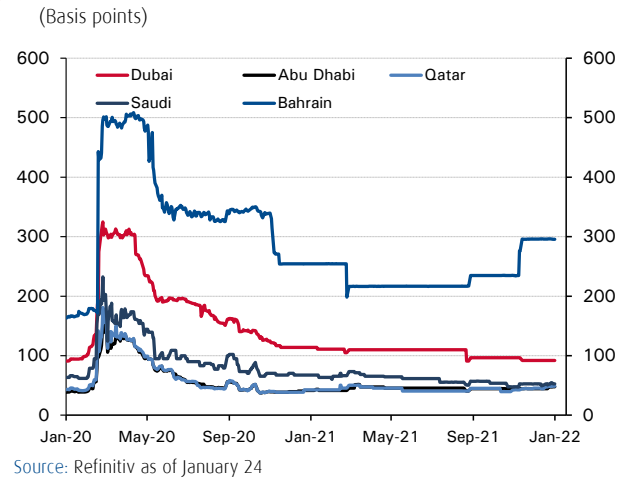


Source: Refinitiv

▶ Chart 5: GCC gross debt outstanding



▶ Chart 6: Five-year credit default swap rates



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

	1Q-19	2Q-19	3Q-19	4Q-19	1Q-20	2Q-20	3Q-20	4Q-20	1Q-21	2Q-21	3Q-21	4Q-21
Public Sector	32.5	10.8	23.6	8.1	17.3	35.4	22.3	12.4	25.4	14.9	12.1	14.0
Financial Sector	2.1	3.6	5.3	1.8	4.1	1.6	4.4	2.1	6.0	3.3	4.3	5.0
Non-Financial Sector	0.0	12.6	0.8	0.8	0.0	1.0	0.0	0.8	1.5	2.4	12.5	0.8
Total	34.6	27.0	29.6	10.8	21.4	38.0	26.7	15.2	35.4	20.6	28.9	19.8

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

	1Q-19	2Q-19	3Q-19	4Q-19	1Q-20	2Q-20	3Q-20	4Q-20	1Q-21	2Q-21	3Q-21	4Q-21
Bahrain	0.0	0.0	3.3	0.5	0.1	2.8	3.2	0.0	3.1	0.9	0.4	2.5
Kuwait	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5	0.0	0.2	0.0	0.0
Oman	0.0	0.4	3.3	0.5	0.4	0.5	1.0	3.8	6.1	3.3	0.0	0.0
Qatar	15.6	5.1	4.7	0.4	3.8	11.0	1.6	0.0	1.7	2.0	17.9	1.1
KSA	16.3	17.8	3.6	3.6	13.6	8.0	12.3	8.3	17.2	3.8	2.5	11.0
UAE	2.7	3.8	14.7	5.3	3.5	15.7	8.5	2.7	4.9	10.4	8.0	5.2
GCC	34.6	27.0	29.6	10.8	21.4	38.0	26.7	15.2	32.9	20.6	28.9	19.8

Source: Refinitiv

*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