

BANKING ON KNOWLEDGE

New easing measures begin as bond yields fall on concerns of growth and inflation

By Dr R Seetharaman

The global bond markets had issues worth \$350bn in 2015. The major issuers in 2015 include Federal Home Loan Mortgage, Kingdom of Spain, JP Morgan & Chase and KfW. The total issues were worth more than \$3.77tn and \$3.6tn in 2014 and 2013 respectively. Major conventional bond issuers in 2014 included European Investment bank, KfW and Republic of Italy.

Treasury yields have been pushing lower since the beginning of this year, as negative yields in Europe and worries about the global economy sinking into deflation increase the appeal of US debt as a haven for investors.

The GDP of the US expanded 2.6% in the fourth quarter, down from 5% in the third quarter, according to a preliminary government estimate released by the Commerce Department. A weaker-than-



expected reading on US economic growth compressed yields and US 10 year treasury ended last week at 1.64%.

Recently the US Federal Reserve reiterated that it will remain patient in determining when to raise interest rates. A provisional reading on the eurozone's rate of inflation showed it slipped further

into negative territory in January, increasing investors' fears about deflation. The yield on the German 10-year bund lowered to 0.301%, its lowest-ever closing by end of last week. The yield on the 10-year gilt, the United Kingdom's 10-year bond, was at a low level of 1.330% by end of last week.

As part of its Quantitative Easing in March 2015, the European Central Bank will become a substantial player in bond markets, buying €60bn of assets a month until at least September 2016, or longer if inflation does not rise. Most of this will consist of sovereign debt issued by countries in the eurozone, which can be close to €5tn.

Debt of countries still in bailout programmes, such as Greece, can only be included if they comply with programme conditions and does not exceed a cap of 33% of debt issuance. If banks hold large sums of debt, the ECB may have a challenge in persuading



them to sell bonds in exchange for cash when the cash deposit rate is negative. And if they do opt to sell then what they do with the proceeds will determine the success of the scheme. Part of the aim of the QE is that it encourages investment in riskier assets with higher yields, such as corporate bonds. But this will depend on commercial banks increasing their balance sheets and not simply leaving the proceeds with their national central banks. The alternative could be that the ECB approaches asset managers and buys their bonds.

The global sukuk has been so far worth more than \$1.5bn in 2015. The major Islamic bond issuers in 2015 are Dubai

Islamic Bank and Federal of Malaysia. The global sukuk market had issues worth more than \$46bn in 2014 and \$43bn in 2013 respectively. The major Islamic bond issuers in 2014 include Islamic development bank, DanaInfra Nasional Bhd and Tenag Nasional Bhd.

In 2015 GCC bond issues so far are worth more than \$1bn. The GCC conventional bond issues in 2014 exceeded \$23bn and in 2013 it exceeded \$18bn.

In 2015, the GCC sukuk issues are close to \$1bn. The GCC Sukuk issues in 2014 exceeded \$18bn and in 2013 it exceeded \$21bn. In 2015 Dubai Islamic Bank issued \$1bn sukuk.

The major conventional bond issues in

2014 were done by Emirate Investment Authority, Emirate of Abu Dhabi and Investment Corporation of Dubai. The Major sukuk issues in 2014 were done by Saudi Sovereign companies, Emirate of Dubai and National commercial Bank. Qatar Central Bank issued QR4bn Conventional bonds in June 2014, which included a new seven-year tranche for building a longer yield curve in the rial-denominated bond market. It had issued QR4bn sukuk in April 2014, and issued QR 24bn sukuk and Conventional bonds in January 2014.

At the end of last week Qatar 5 CDS was at 80.66 basis points, 5-year Dubai CDS was at 225.03 basis points, 5-year Abu Dhabi CDS was at 71.76 basis points, 5-year Saudi Arabia CDS was at 80.010 basis points and 5-year Bahrain CDS was at 282.550 basis points.

Dr R Seetharaman is Group CEO of Doha Bank. The views expressed are his own.