

BANKING ON KNOWLEDGE

Surge in Gulf sovereign bond issuances, oil price can ease region's fiscal strains

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Major global bond issuances came from the Federal Republic of Germany, the European Investment Bank and CVS Health Corp. Global bond issuances were above \$1.9tn in 2018 and above \$4.3tn in 2017. Global sukuk issuances in 2018 were above \$21bn. The major sukuk issuances came from the Republic of Indonesia — \$3.18bn and Dan Infra Nasional Bhd — \$1.2bn. In 2017, global sukuk issuances were above \$55bn.

US government debt yields fell last Friday and notched weekly losses after the Federal Reserve signalled it could allow inflation to run above its target. The yield on two-year yield was 2.47%; the benchmark 10-year Treasury Note was at 2.93% and the yield on the 30-year Treasury Bond was lower at 3.09% by end of last week.



The spread between 2- and 10-year Treasury Note yields was less than half a percent. But the curve is expected to move up as the Fed continues to raise short-term policy rates and we need to

see the Fed action in June 2018. The yield on the 10-year benchmark US Treasury Note fell this week below 2.9%, in response to the Italian uncertainty and a drop in oil prices. Earlier this month, the 10-year Treasury yields reached as high as 3.11% — the highest level since July 2011. The spike in yields was largely caused by strong economic data, leading to increasing expectations of firming inflation and further Fed rate hikes. Markets during this time were also digesting Trump's move to withdraw the US from the Iran nuclear deal.

The bond issuances in the Gulf exceeded \$54.8bn in 2018. The conventional bond issuances in the Gulf exceeded \$47bn in 2018 and sukuk exceeded \$7.4bn in 2018. The major conventional sovereign issuances in 2018 came from the State of Qatar — \$12bn, Qatar Investment Authority — \$6.18bn and Sultanate of



Oman — \$6.5bn. Qatar raised \$12bn in a bond issue in April 2018, the largest placement by an emerging market sovereign this year, marking a successful comeback to the international debt markets. The guidance to final spreads was 135 bps over US Treasuries for \$3bn in five-year notes, 170 bps over the benchmark for \$3bn in 10-year notes and to 205 bps over for \$6bn in 30-year paper.

Gulf bond sales reached a new record of \$85bn in 2017 following a bumper 2016, bolstered by governments seeking to raise funds amid falling revenues from oil; and the year 2018

has so far been a happening year for gulf bond market, mainly from Gulf Sovereigns. According to Climate bond analysis for 2017, the Climate bonds issued were worth \$155.5bn. The US, China and France led the issuances between them. The US bond issuances were \$43.1bn, China at \$22.5bn & India at \$4.3bn. The largest single green bond placement originated from the Republic of France, which ended 2017 at \$10.7bn. In 2018, Belgium sovereign came with a \$4.5bn green bond issuance. Indonesia also came with a bond issuance of \$1.25bn. The Gulf market has not witnessed significant green

bond issues and last year one of the Gulf-based banks had done a Green bond issue.

The Qatar Central Bank (QCB) seeks to facilitate the issuances of green bonds, enhance cooperation with the Qatar Development Bank to foster economic diversification through green financing and promote sustainable investment and devise incentives for the financial and manufacturing firms to promote such financing.

Oil prices have touched new highs this year with Brent almost reaching \$80 a barrel and were recently falling due to possible action from major oil producers. The surge in Gulf sovereign bond issuances, along with rise in oil prices, can ease the fiscal strain on gulf sovereigns.

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