Bond yields softened by economic recovery concerns

DOHA DATELINE
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THE GLOBAL MARKETS had more than $2.78 trillion bond issues in 2014 till date. In 2013 markets witnessed more than $3.6 trillion bond issues. The first half of 2013 saw issues close to $2 trillion. In first week of September 2014 the European Central Bank (ECB) cut interest rates and set plans to buy European bonds sold by the private sector, aiming to prop up a struggling economy and reverse an alarming decline in inflation. The move created a long rally in the prices of debt issued by European nations. The ECB bond purchases and Ukraine tensions had driven up bond prices and softened the yields in Europe. The Bank of Japan finished its meeting last week maintained its record debt purchases of ¥60 trillion to ¥70 trillion a year. The yield on the benchmark 10-year Japanese government bond finished lower on buying on the back of monetary easing by the ECB, including interest rate cuts.

US government bonds initially strengthened following the ECB's surprising interest rate cuts. US bonds offer superior yields compared with German government debt, attracting buyers for relative value. US 10-year treasury yields eased from one-month highs after the government reported far fewer jobs were created in August than expected, reinforcing the view that the Federal Reserve would wait until the second half of next year to raise interest rates. The data showed 142,000 jobs were created in August versus an estimate of 225,000, with the jobless rate at 6.1 per cent. The US 10-year treasury yield closed at 2.4587 per cent by end of first week of September 2014. It had fallen to 2.334 per cent the lowest closing level in last week of August 2014 since June 2013 as investors piled into safe debt on account of Ukraine tensions. There were expectations of interest rate rise at the beginning of the year which send bond prices lower as the US economy picked up speed and the Federal Reserve reduced its monthly stimulus, which will end in October 2014. However, the Federal Reserve has kept interest rate hike options open and will monitor incoming information on labor markets and inflation to determine appropriate stance of monetary policy. The bond yields, which had fallen to low levels in last week of August 2014 due to geopolitical tensions struggle to surge on account of concerns of economic recovery as easing measures continue by various central banks.

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At the end of first week of September 2014 Qatar five-year CDS was at 50.5 basis points, five-year Dubai CDS was at 155.01 basis points, five-year Abu Dhabi CDS was at 49.5 basis points, five-year Saudi Arabia CDS was at 48.5 basis points and five-year Bahrain CDS was at 160.01 basis points. This year Securities and Commodities Authority of the UAE has issued new rules for issuance and trading of covered bonds, which will provide commercial banks a new source of funding. The Capital Market Authority of Oman issued draft sukuk regulations this year to promote the Islamic debt market.

The global sukuk was more than $30 billion in 2014. The major Islamic bond issuers in 2014 include Islamic development bank, DanaInfra Nassional and Tenaq Nasional. In the first half of 2013 global sukuk exceeded $19 billion and had exceeded $43 billion by end of 2013. In 2014 GCC bond issues were worth more than $32 billion. In first half of 2013 it exceeded $21 billion.

The bond issues in the GCC in 2013 were worth more than $45 billion. The GCC conventional bond issues in 2014 exceeded $16 billion and in the first half of 2013 it exceeded $11 billionn. The major conventional bond issues in 2014 were done by Emirate Investment Authority, emirate of Abu Dhabi and Investment Corporation of Dubai. The GCC sukuk in 2014 exceeded $15 billion and in the first half of 2013 it had exceeded $10.5 billion. The major sukuk issues in 2014 were done by Saudi Sovereign companies, emirate of Dubai and National Commercial Bank. Qatar Central Bank issued QR4 billion conventional bonds in June 2014, which included a new seven-year tranche for building a longer yield curve in the riyal-denominated bond market. It had issued QR4 billion sukuks in April 2014, issued QR24 billion sukuks and conventional bonds in January 2014. Saudi Electricity Company had come with Islamic bond issues worth $3.69 billion in the first quarter of 2014. In April 2014 Dubai tapped capital markets with the sale of $750 million of 15-year Islamic bonds. The GCC bond market had dried up at the beginning of the first half of 2014 on account of geopolitical tensions in the Middle East and Ukraine. However, demand is expected to revive as investors believe in the long-term fundamentals of the region.

The writer is the group chief executive officer at Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.