

BANKING ON KNOWLEDGE

Gulf bond market's visibility enhanced for global investors

By Dr R Seetharaman

The major global bond issuances came from Federal Republic of Germany, European Investment Bank and CVS Health Corp. The global bond issuances were above \$3.1tn in 2018. The global bond issues were above \$4.3tn in 2017. The global sukuk issuances exceed \$34bn in 2018. The major sukuk issuances came from Republic of Indonesia - \$3.18bn and Islamic Development Bank - \$2.65bn. US government debt yields continued their upward climb prior to the Fed meeting last month. The yield on the benchmark 10-year Treasury note touched 3.113%, just below its 2018 high of 3.128% that it hit in May 2018. The yield on the 30-year Treasury bond hit 3.249%, its highest level since May 18, 2018.



A flattening of the yield curve as spreads between short-term and long-term debt rates shrink to lows not seen since before the 2008 financial crisis. At the start of 2017, the spread was 0.54,

and recently it was 0.24. As expected last month, the Federal Reserve raised its target benchmark interest rate, the fed funds rate, by 25 basis points (0.25%), to a target range of 2.00% to 2.25%. This is the third hike of 2018 and eighth of the current cycle. New forecasts showed the Fed solidifying around a fourth rate increase this year, reflecting a slight upgrade to its growth outlook and the bond markets reacted little after the meeting. The bond issues in Gulf exceeded \$68bn in 2018. The conventional bond issues in Gulf exceeded \$53bn in 2018 and Islamic sukuk exceeded \$14.3bn in 2018. The major conventional sovereign issues in 2018 came from the State of Qatar - \$12bn, Qatar Investment Authority - \$7.49bn 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 happening year for gulf bond market mainly from Gulf sovereigns. The conventional bond issues in Gulf

exceeded \$62bn in 2017 and Islamic sukuk exceeded \$22bn in 2017. Oil prices have surged over 20% this year and is above \$80 per barrel - has reduced pressure on Gulf government's budget deficits and helped lower their borrowing requirements. Recently, Opec's and its partners stopped short of pledging immediate production increases even through looming US sanctions on Iran have started removing barrels from the market. The high oil prices are expected to prevail and hence gulf debt issuances could decline. The sovereign CDS rates are as follows - Qatar 5-year sovereign CDS rates is

above 67 basis points. Qatar along with other Gulf states will enter JPMorgan's emerging market government bond indexes in 2019. Their entry will be phased in between January 31 and September 30, 2019. Both conventional bonds and sukuk, or Islamic bonds, will be eligible for inclusion in indexes, but sukuk will need to have a credit rating from at least one of the three major rating agencies to be included. This move will enhance visibility of gulf bonds to global investors and thereby attract billions of dollars of new foreign investment into their debt. It will also enable the borrowers in the region to support their bond issuances programs and also widen their bond investor base.

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