



DOHA DATELINE
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Bond market: A good source of funding?

GCC bond issues exceed \$9b; sukuk issues hit \$10b in 2014



A television monitor on the floor of the New York Stock Exchange shows the decision of the Federal Reserve on April 30. The Federal Reserve says it will make a fourth \$10 billion cut in its monthly bond purchases to \$45 billion because it thinks the US job market needs less help from the Fed. — AP

THE GLOBAL MARKETS had more than \$1.76 trillion's bond issues in 2014 till date. In 2013, it witnessed bond issues of more than \$3.6 trillion. The first half of 2013 witnessed issues close to \$2 trillion.

The US 10-year Treasury yield was above 2.5 per cent after touching a six month low recently. The decline came in the face of encouraging domestic economic data in recent weeks.

Recently the US government said housing starts rose 13.2 per cent to 1.07 million annualised units in April, the strongest level since November 2013.

The US economy added 288,000 jobs in April 2014 as the unemployment rate fell to 6.3 per cent, its lowest level since September 2008, from 6.7 per cent in March 2014.

In April 2014, US Fed trimmed the size of its bond-buying strategy by \$10 billion to \$45 billion. The US economy expanded at a 0.1 per cent rate in the first quarter of 2014 an abrupt deceleration from 2.6 per cent growth in the last quarter of 2013. Over the past 12 months, prices have increased by two per cent, the largest gain since July and matching the Federal Reserve's inflation target. Low inflation had enabled the Fed to pursue extraordinary stimulus programmes in an effort to boost economic growth. The Fed has kept the short-term interest rate it controls at nearly zero since December 2008.

Higher inflation could raise pressure on the Fed to increase that rate earlier

13.2%

increase in housing starts to 1.07m annualised units

than it had planned. Interest rates will probably remain low until mid-2015. A steep increase in interest rates may impact profitability of the GCC banks.

Qatar's five-year CDS was at 50 basis points, Dubai's at 155 basis points, Abu Dhabi's at 42 basis points, Saudi Arabia's at 44 basis points and Bahrain's at 160 basis points. This year Securities and Commodities Authority of the UAE has issued new rules for issuance and trading of covered bonds.

The covered bonds, which are backed by cash flows from mortgages or public sector loans, are considered relatively safe because investors have a preferential claim on the assets in the event of a default.

This will provide commercial banks a new source of funding. Recently the Capital Market Authority of Oman issued draft sukuk regulations to promote the Islamic debt market.

In addition to this the Oman government also plans to float \$520 million worth of sovereign sukuk in the domestic

market. The global sukuk was more than \$17 billion in 2014. The major Islamic bond issuers in 2014 includes Islamic Development Bank and Tenaq Nasional.

In the first half of 2013, global sukuk exceeded \$19 billion. In 2014, GCC bond issues were worth more than \$19 billion. In the 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 \$9 billion and in the first half of 2013 it exceeded \$11 billion. The major conventional bond issues in 2014 were done by Abu Dhabi and Investment Corporation of Dubai.

The GCC Islamic bond issues in 2014 exceeded \$10 billion and in the first half of 2013 it had exceeded \$10.5 billion.

The major Islamic bond issues in 2014 were done by Saudi sovereign companies, Dubai and National Commercial Bank. Qatar Central Bank came with conventional bond issues worth QR13 billion and Islamic bond issues worth QR11 billion 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 drop in GCC bond issues indicates that institutions are contemplating whether bond market is still a good source of funding.

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.