

## BANKING ON KNOWLEDGE

## Bond market affected by Greece concerns and volatile oil prices

By Dr R Seetharaman

The global bond issues in first half of 2015 was close to \$2.13tn. The major issues came from European Investment Bank (\$40.33bn), Republic of Italy (\$31.28bn) and Kingdom of Spain (\$31.24bn).

In first half of 2014 the global bond issues were worth more than \$2.46tn and for the full year issues were worth more than \$ 4tn. The major issues came from European Investment Bank, KfW and Republic of Italy.

The US 10-year treasury yield had closed at 2.38% by end of last week. It went up to 2.42% last week and had fallen after the latest non-farm payroll data, which offered mixed signals on US economy, with modest growth in hiring, sending nonfarm payrolls up 223,000 in June 2015.



In addition to the payroll growth, the unemployment rate ticked lower to 5.3% from 5.5%, due largely to a sharp decline in labour force participation, which fell from 62.9% to 62.6%, its lowest level since

October 1977. The latest job data could raise debate among Federal Reserve officials about when to start raising the Fed's benchmark interest rate.

The Japanese 10-year yields had gone up to 0.572% last week and had fallen after softer US job data and ended last week at 0.488%.

In the eurozone, government bond yields had arose last week as investors cut exposure to German Bunds and riskier peripheral debt on account of Greece concerns. German 10-year Bund yields went up to at 0.85%.

Spanish, Italian and Portuguese 10-year yields also went up. Eurozone yields fell last Friday on investors bet that even if Greeks voted 'no' yesterday in a referendum on their country's bailout terms, Greece would not automatically be forced out of the euro.

German 10-year yields came down to



0.791% by end of last week. Spanish, Italian and Portuguese yields also softened.

The GCC conventional bond issues in first half of 2015 was close to \$11bn and in first half of 2014 it was close to \$12bn. The major conventional bond issues in 2015 include NBAD \$1.98bn, Investment Corp of Dubai \$1.48bn and HSBC Holdings \$1.21 bn.

The GCC conventional bond issues in 2014 were more than \$18bn. The major conventional bond issues in 2014 were done by Emirate Investment Authority, Emirate of Abu Dhabi and Investment Corp of Dubai.

The GCC sukuk issues in first half of 2015 was above \$5bn and in first half of 2014 it was close to \$12bn. The major sukuk issues in 2015 include Dubai Islamic Bank \$1.75 bn, Riyadh Bank \$1.06bn, Emirates of Ras Al Khaimah \$1bn and Riyadh Bank \$1.06bn.

The GCC sukuk issues in 2014 was above \$14bn. The major sukuk issues in 2014 were done by Saudi Sovereign companies, Emirate of Dubai and National commercial Bank.

GCC bond issues had witnessed a drop in the first half of this year, compared to the same period last year, mainly in

sukuk. The drop was mainly due to concerns of US Fed rate hikes and volatile oil prices.

The 5-year sovereign Credit Default Swaps (CDS) by the end of last week was: Qatar CDS 58.437 Basis points, Saudi CDS 61.710 basis points, Dubai CDS 191.465 basis points, ADB 58.26 basis points, Bahrain CDS 263.020 basis points respectively.

Most of the GCC sovereign CDSs had surged by the end of last year on account of low oil price and concerns of fiscal condition. However, the revival in oil prices since end of first quarter this year has eased the GCC sovereign CDS.

On the whole the volatile oil prices and Greece concerns have affected the global bond market.

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