BANKING ON KNOWLEDGE

Bond yields and oil prices swing as deflation fears ease

By Dr R Seetharaman

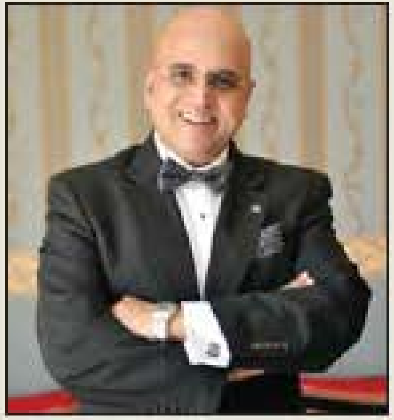
The US economy added 223,000 jobs in April 2015, while the unemployment rate fell to 5.4%, largely in line with expectations.

The nonfarm-payrolls data pointed to a pace of employment growth that indicated that the economy may be on solid footing, but not so much as to quicken the first Federal Reserve rate hike.

The yield on the US 10-year Treasury bills fell to 2.148% by end of last week as soft US wage growth eased lingering investor concerns about the pace of potential Federal Reserve rate increases.

On last Thursday the US 10-Year Treasury yield went up to 2.305% and 30-Year Treasury yield went above 3% for the first time this year.

The German 10-year yield had closed by end of last week at 0.547 %. It had gone up to 0.796% on Thursday after striking a



record low of 0.05% last month.

Bond yields in Europe and the US had earlier arose as deflation fears have eased with recovering oil prices and in anticipation of a Federal Reserve interest rate rise later this year, despite the standoff between Greece and its lender.

WTI rallied above $62/barrel and Brent above $69/barrel by last Wednesday to 2015 peak after the US Energy Information Administration said crude stockpiles fell 3.9mn barrels the earlier week, the first drop in four months.

Crude oil prices edged down last Friday, and set for their first weekly decline in more than a month as concerns over a global supply glut outweighed strong Chinese crude imports and WTI was at $59.39/barrel and Brent at $65.39/barrel respectively by end of last week.

Low liquidity in global bond markets after central banks around the world bought up large amounts of government debt in recent months are also exacerbating the moves in bond markets.

Gold and Silver were higher after US payrolls data supported speculation that the Federal Reserve may hold off raising interest rates in the immediate future and ended last week at $1,188.39/ounce and $16.46/ounce respectively. A potential rise

in returns from US bonds can weigh on the price of precious metals.

The Global bond issues in 2015 were more than $1.48tn. The major bond issues in 2015 came from European Investment Bank $33.80bn and French Republic $23.85bn. In 2014 Global bond issues was $3.77tn.

The Global Sukuk issues in 2015 were more than $12bn. The major Sukuk issues in 2015 came from Federal of Malaysia $2.2bn, Malaysia Sovereign Sukuk $1.5bn and Islamic development Bank $1bn. In 2014 Global Sukuk issues were worth more than $46bn.

The GCC bond issues in 2015 were more than $11bn. The Conventional bond issues were worth more than $8bn and Islamic bond issues were worth more than $3bn.

The major Conventional bond issues in 2015 are Investment corporation of Dubai $1.432bn, First Gulf bank $808mn and National Bank of Abu Dhabi $1.057bn.

The major Islamic bond issues in 2015 are Dubai Islamic Bank $1bn, Emirate of Ras Al Khaimah $1bn and Dubai holding $0.5bn.

In 2014 GCC bonds are more than $42bn of which $23bn came from Conventional bonds and $19bn came from Islamic Sukuk.

Qatar Central Bank issued QR4bn 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 QR4bn sukuks in April 2014, issued QR24bn sukuks and conventional bonds in January 2014.

By end of last week Qatar 5-year CDS was 61.009 Basis Points, Dubai 5-year CDS was196.959 Basis Points, Abu-Dhabi 5-year CDS was 60.500 Basis Points, Saudi 5-year CDS was 72.920 Basis Points and Bahrain 5-year CDS was 281.7 Basis Points respectively.

When oil price was down in the last quarter of 2014, it had created concerns of deflation across the globe. However, we have seen some revival in oil prices in second quarter of 2015, which has eased deflation fears, thereby resulting in volatile movements in bonds and oil last week.

- *Dr R Seetharaman is Group CEO of Doha Bank. The views expressed are his own.*