

## BANKING ON KNOWLEDGE

# Gulf sovereigns lead bond issuances amidst Fed's dovish tone

By Dr R Seetharaman

In 2019, global bond issuances stand at \$1.033tn as against \$3.79tn in 2018. The Federal Republic of Germany, Republic of Italy and European Investment Bank were the key issuers.

In 2019, global sukuk issuances are close to \$8bn with Republic of Indonesia, First Abu Dhabi Bank and Turkey being the key issuers. In 2018, the global sukuk issuances were above \$45bn.

Last week citing a more modest outlook for the economy, the Federal Reserve held interest rates steady and signalled it did not plan to raise rates at all this year and would bump them up just once in 2020, providing a road map for a sustained period of easy-money policy.



The Fed also announced that it will end a campaign to shrink its \$3.8tn balance sheet later this year, a move that should help keep a lid on long-term rates.

Policymakers have said that leaving extra cash in the financial system will better allow the Fed to control interest rates and banks to meet requirements for higher capital buffers in the wake of the financial crisis.

Yet the bigger portfolio also should translate into slightly lower long-term rates during a period of economic uncertainty. As expected, the Fed kept its key short-term rate at a range of 2.25% to 2.5%. The Fed revised down its estimates for the economy and rates this year to align with its recent views of a slowing global economy and volatile financial markets.

It's also taking a market-friendly step of leaving its balance sheet at a higher level. At the same time, policymakers are aiming for a delicate balance by sending the message that the economy and labour market remained on solid



footing. The US 10-year yield has ended last week at 2.4390%. A closely watched measure of the Treasury yield curve temporarily inverted on Friday, for the first time since 2007, highlighting fears that a global slowdown will take a toll on the US economy. A possible economic slump and the prospect of the Fed having to cut short-term rates led the yield gap between 3-month and 10-year yields to vanish in a surge of buying that pushed long-term rates sharply lower. The spread between three-month bills and 10-year Treasuries has inverted before each of the past seven recessions.

In 2019, Gulf conventional bond issuances exceeded \$25bn with Qatar leading among the Gulf bond issuers with a \$12bn bond issuance. The other leading bond issuers include Saudi Arabia and Oman.

The State of Qatar has achieved a successful return to the international financial markets with a total of three tranches worth a total of \$12bn. The first tranche included five-year bonds worth \$2bn - pricing 90 basis points over US Treasury bonds on five-year bonds. The second tranche for 10 years' worth \$4bn - was 135 basis points over US treasury basis points. The third tranche

is for 30 years' worth \$6bn, and 175 basis points above US Treasury bonds. Qatar is the first country in the world to issue Formosa bonds on the Taipei Stock Exchange since 2018. In 2018, Gulf conventional bond issuances exceeded \$60bn. In 2018, Qatar and Saudi sovereigns had tapped the bond market.

The Gulf sukuk Issuances exceeded \$4bn in 2019. The major sukuk bond issuers in Gulf in 2019 include First Abu Dhabi Bank, Dubai Islamic Bank and Qatar Islamic Bank. The Qatar 5-year CDS is at 74.305 basis points, Saudi 5-year CDS is at 85.373 basis points, Dubai is at 126.420 basis points, ADGB 5-year CDS is at 62.245 basis points, Bahrain is at 245.605 basis points.

■ Dr R Seetharaman is Group CEO of Doha Bank.