

Debt markets

GCC: Yields ease as fiscal concerns subside; issuance bounces back

> Chaker El Mostafa
Assistant Economist
+965 2259 5356, chakermostafa@nbk.com

> Nembr Kanafani
Head of Banking and Finance Research
+965 2259 5365, nemrkanafani@nbk.com

GCC bond yields and CDS rates eased during 1Q15 as concerns over the GCC's fiscal positions receded and perceived risks declined. Yields had risen towards the end of last year following the sharp decline in oil prices and amid concerns of GCC vulnerability. Meanwhile, the stock of outstanding debt picked up as debt issuance bounced back, led by the financial sector in the UAE. A low rate environment and a robust economic outlook will likely see debt activity pick up this year.

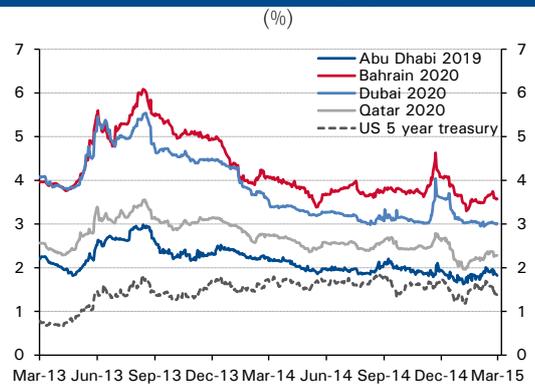
Earlier market fears that GCC economic growth would slow sharply in the wake of the decline in oil prices now appear unfounded. Assurances that governments intend to maintain spending levels despite weakening revenues thanks to healthy reserves and ease of access to debt markets have helped sooth investor sentiment. As a result, sovereign yields have recovered from their December spike when OPEC announced it would not support falling global oil prices. Yields on five year paper settled at 1.81%, 3.63%, 3.00%, and 2.26%, for Abu Dhabi, Bahrain, Dubai, and Qatar, respectively.

Credit default swaps (CDS) for most GCC countries also declined, reflecting the improvement in investor sentiment. Dubai witnessed the largest change in perception, shaving off 46 points from its 1Q15 peak of 265 points in January. Solid fundamentals, satisfactory fiscal prospects and domestic backing from its neighboring emirates have alleviated most concerns. The only exception was Bahrain, which saw its CDS rates rise by 27 points over the quarter, as its vulnerable fiscal position remained a concern. Meanwhile, domestic developments remain the main driver behind risk perception in GCC countries, with regional developments, including the escalating conflict in Yemen, having little impact on GCC bond yields.

GCC debt saw a healthy pickup in issuance during 1Q15 compared to the previous two quarters. As a result, net growth in the stock of debt accelerated to 4.65% year-on-year (y/y), with outstanding debt rising to \$265 billion. Despite an increase in issuance, the level remained weaker than a year ago, at \$10.4 billion, in part on weaker issuance by the non-financial sector. The financial sector, especially in the UAE, led issuance activity in 1Q15 as more banks began complying with new capital regulations. Meanwhile, public sector issuance was led by Oman, with its second sovereign bond issuance since the drop in oil prices, and Bahrain, which issued a couple of long term sukuk. Both countries are seeking to finance projected deficits this year.

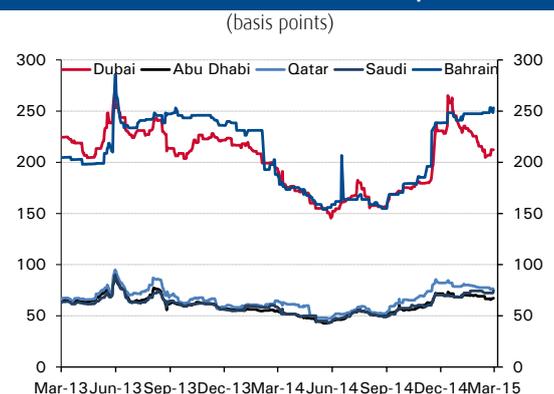
Debt issuance is likely to recover this year, with rates expected to remain contained and borrowing needs very likely to rise. In the current environment of lower oil prices, governments are expected to require more debt to finance fiscal deficits. The region's robust economic outlook and substantial capital spending plans, means private borrowing needs are expected to remain large.

Chart 1: GCC sovereign yields



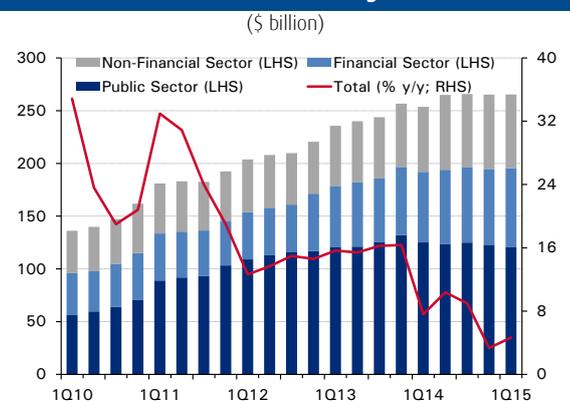
Source: Thomson Reuters Datastream

Chart 2: GCC credit default swaps



Source: Thomson Reuters Datastream

Chart 3: GCC outstanding debt



Source: Zawya

Head Office

Kuwait
National Bank of Kuwait SAK
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAK
Bahrain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait
Bahrain Branch (H.O)
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAK
Head Office - Dubai
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait
Abu Dhabi - Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAK
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAK
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 178
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300

United States of America
National Bank of Kuwait SAK
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAK
Singapore Branch
9 Raffles Place #24-01/02
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAK
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
133 Yin Cheng Bei Road, Lujiazui
Shanghai 200120
China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
Watani Investment Company KSC (c)
38th Floor, Arraya II Building
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904

United Arab Emirates
NBK Capital Limited
Precinct Building 3, Office 404
Dubai International Financial Center
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353