

# Credit Trading Daily Comment

Global Markets

5<sup>th</sup> August 2024

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## Market Commentary

GCC credit spreads continued widening on Friday in line with derivatives CDX and XOVER. Accounts flow have been broadly light and balanced with no strong skew to selling, however we have seen some indication that could change this morning without first print of the day +6bp wider in Z spread from Friday close.

It is worth noting, credit spreads have pushed through YTD wides across the board. We expect volatility to remain high in external markets for the rest of the week. The liquidity in credit markets were low before the market sell off, so we expect thin liquidity and gaps in prices before the market finds new clearing levels.

High beta is likely to underperform the most due to heavy positioning. We expect Egypt and Jordan to open -1pt to -2pt.

IG names should continue to be resilient to market volatility, in particular short-dated part of the curve in KSA and ADGB sovereigns and quasi sovereigns

UAE financials short dated bonds also offers good place to hide due to strong technicals, we like DIBUH and EBIUH sukuk short dated senior papers along with Abu Dhabi Tier 1 banks perps ADIB perp and ADCB perp bonds.

In terms of sectors, we would avoid real estate/energy and prefer utilities/telcos and sukuks are likely to outperform due to sticky investor base compared to conventionals.

Synthetics & Rates	Category	Prev day Close	Change (in basis points)		
			1D	1W	1M
JPM EMBI Global Spread bps	Index	372.3	+14.0	+23.0	+24.5
GCC IG + HY Spread (BBG) bps	Index	138.0	+13.1	+23.6	+31.0
ITRX Main 5Y Spread bps	CDS	62.9	+4.1	+8.6	+8.5
ITRX Xover 5Y Spread bps	CDS	331.9	+21.6	+36.8	+36.8
5Y US Treasury Yield	Rates	3.617%	-21.7	-45.8	-70.7
10Y US Treasury Yield	Rates	3.790%	-18.6	-40.4	-56.8

Source: Bloomberg

Stocks / Commodities / Currencies	Category	Prev day Close	Change (in %)		
			1D	1W	1M
Dow Jones Inds. Avg (US)	DM - Equities	39,737	-1.5%	-2.1%	+1.1%
S&P 500 (US)	DM - Equities	5,347	-1.8%	-2.1%	-3.4%
Nasdaq Composite (US)	DM - Equities	16,776	-2.4%	-3.4%	-7.8%
Nikkei 225 (Japan)	DM - Equities	35,910	-5.8%	-4.7%	-11.5%
Hang Seng (Hong Kong)	EM - Equities	16,946	-2.1%	-0.4%	-5.7%
CSI 300 (China)	EM - Equities	3,384	-1.0%	-0.7%	-2.3%
Abu Dhabi - ADX	EM - Equities	9,292	+0.6%	-0.3%	+2.2%
Saudi Arabia	EM - Equities	11,754	-2.4%	-3.5%	+0.8%
Egypt	EM - Equities	28,504	-2.9%	-1.8%	+0.5%
DXY US\$ Index	Currency	103.21	-1.2%	-1.1%	-2.1%
WTI Oil \$/bbl	Commodity	73.52	-3.7%	-4.7%	-12.4%
Gold spot \$/oz	Commodity	2,443	-0.1%	+2.3%	+3.7%

Source: Bloomberg/FAB

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## Major Headlines

- UAE's non-oil business activity slows in July on inflation, competition: (Source: Zawya)
- Saudi Arabia's non-oil business activity growth slows in July (Source: Zawya)
- Saudi banks beat Q2 estimates (Source: Bloomberg)
- Israel braces for attack by Iran as US urges Gaza cease-fire (Source: Bloomberg)

## Key Macro Data Releases

Region	Data series	Release Date	Period	Survey Median	Prior Reading
US	S&P Global US Services PMI	05/Aug	July	56	56
	ISM Services Index	05/Aug	July	51	48.8
	Trade Balance	06/Aug	June	-\$72.5b	-\$75.1b
	Initial Jobless Claims	06/Aug	3 Aug	243k	249k
GCC	UAE S&P Global PMI	05/Aug	July	-	54.6
	Dubai S&P Global PMI	05/Aug	July	-	54.3
	UAE M3 Money Supply YoY	05-08/Aug	May	-	17.4%
	Dubai CPI YoY	10-15/Aug	July	-	3.85%
	KSA S&P Global PMI	05/Aug	July	-	55.0
	Egypt S&P Global PMI	05/Aug	July	-	49.9
	Egypt Net Reserves	07/Aug	July	-	46.4b
	Egypt Urban CPI YoY	08/Aug	July	-	27.5%

Source: Bloomberg/FAB

## New Issue Update

### (1) Government of Sharjah issued AED 1bn 5-year Ijara sukuk at 5.5%

Security	Identifier	Size	1st Settle Date	Issue Px/Reoffer	Issue Yield
SHARSK 5 ½ 07/10/29	REGS: XS2853537343	AED 1bn	07/10/2024	100.00	5.5%

#### Key Points:

- Format of issue: Auction
- Order book AED4.565bn, Bids accepted AED 1.166bn
- Accepted Yield Range 5.30%-5.50%
- Participated Yield Range 5.3%-6%
- Secondary market trading: multiple buyers mostly GCC accounts, seen demand mostly from retail, bonds closed 100.25/101.

### (2) GreenSaif Pipelines issued dural tranche USD1.4bn 2036 at 5.8528 and USD1.6bn 2042 at 6.1027%

Security	Identifier	Size	1st Settle Date	Issue Px/Reoffer	Issue Yield
GASBCM 5.8528 02/23/36	REGS: XS2850687620	USD 1.4bn	07/31/2024	100.00	5.8528%
GASBCM 6.1027 08/23/42	REGS: XS2850687893	USD 1.6bn	07/31/2024	100.00	6.1027%

#### Key Points:

- Sculpted, amortizing repayment profile
- Order book USD6.5bn excluding JLM interest, marginal skew to 2036
- Secondary market trading: multiple buyers of 2036 out of Europe, Asia accounts selling both 2036 and 2042s
- On the day bonds performed well to the broader market, 2036 100/100.25 close, 2042 99.75/100.125 close

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**TRADE IDEAS | \*\*Cash prices to be updated at time of execution\*\***

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**(1) RISK OFF TRADE IDEA: OMAN SWITCH**

- **Client sells OMAN 7.375% Oct 32s @ 111.5, YTM 5.61%, Z+179**
- **Client buys OMAN 4.750% Jun 26s @ 98.75, YTM 5.46%, Z+116**
  - Client takes out 12.75pts in cash with drop in just 63bp in Zspread
  - Client reduces volatility in portfolio by reducing duration
  - Curve slope (OMAN32-OMAN26) reached extreme level of 63bp, lowest historically (high 140bp)
  - In risk off environment, we expect credit curves to steepen.
  - The best way to express the view is to select high cash price bond. In risk off environment real money tends to raise as much cash as possible to prepare for potential outflows.
  - Works 10x10

**(2) VALUE in SHARJAH**

- **Client sells SHJGOV 6.50% Nov 32s @ 104.60, z+197, y+5.80%**
- **Client buys BOSUH 7.00% Mar 28s @ 103.90, Z+177, y+5.80%**
  - Client moves out of expensive Sharjah Sov risk and into the Champion bank for the Sharjah emirate
  - Client reduces duration by over 4.5yrs, yet maintains same yield!
  - Client drops 20bps in Z (5bps a year), minimal drop for such a maturity reduction
  - SHJGOV 32s, rated BBB-, whilst BOSUH rated 2 notches higher at BBB+
  - BOSUH is 500mm deal, whilst SHJGOV is 1bn, hence more rarity value
  - BOSUH 28s is a BBB+ rated senior issue, and the credit benefits from a resilient UAE economy that is driving the banking sector performance.
  - The credit risk also benefits from the fact that BoS is 39% owned by Sharjah govt
  - works 10m x 10m

**(3) UAE banks in vogue!**

- **Client sells EBIUH 5.875% 28s @ 103.5 Z+85 y+4.95%**
- **Client buys BOSUH 7.000% 28s @ 103.75 z+170 y+5.90%**
  - Client picks 85bps in Z, for dropping 2 notches in credit rating from A to BBB+
  - Client picks 0.75% in all in yield
  - Client moves into more sought after/smaller BOSUH deal
  - Close to best ever terms
  - Works 20 x 20
  - Bank of Sharjah is rated BBB+/Stable and the credit benefits from a resilient UAE economy that is driving the banking sector performance.
  - The credit risk also benefits from the fact that BoS is 39% owned by Sharjah govt
  - BoS witnessed some management changes in 2023 and the new strategy is working in favour of the lender. Under the new strategy, BoS is divesting non-core assets and emphasizing on to improve profitability. All these developments prompted Fitch to upgrade the bank's viability rating (VR) to 'b-'
  - The bank maintains healthy capitalization ratios which improved significantly in 2023 as CET1 reached 13.49% vs 10.33% in 2022.

**(4) KUWAITI Alpha: KFHKK → BBK, pick 145bps in Zsp**

- **Client sells KFHKK 5.011% Jan 29s @ 98.50, z+120, y+5.375% (Rating: A)**
- **Client buys BBK 6.875% Jun 29s @ 100.05, Z+270, y+6.85% (Rating: B+)**
  - Client picks up 150bps in Z
  - Client picks 1.50% in yield
  - Client moves out of IG risk which has outperformed tracking rates markets, and into HY issuers which still have room to compress
  - Post issuance KFHKK has performed by 10bps, whilst BBK has widened 20bps from Reoffer.
  - Customers do not have many options to gain exposure to BBK in senior bank space, given the 2024 deal is due for maturity in July
  - We think BBK's \$500mm 5yr should not trade so wide given the ownership structure (details below)

- A typical Bahrain 5yr sovereign bond rated B+ (same as BBK) trades at z +215bps. BBK at 50bps discount, given the ownership structure, looks too cheap to us.
- Client remains in same maturity spectrum, in similarly sized deals
- Client moves out of sukuk into conventional
- Both are recent issues
- Works 10mm x 10mm

**BBK fundamentals**

- Bank of Bahrain and Kuwait is 33% indirectly owned by Bahrain govt (through Social Insurance Org) and 19% owned by Kuwait Investment Authority. Fincorp WLL owns 26.2% and 21.6% is listed.
- BBK is primarily domiciled in Bahrain with major operations in Bahrain – it has a 15% share in Bahraini domestic retail bank assets and is a systemically important bank for the country.
- BBK benefits from the stable banking sector operating environment in Bahrain, which is underpinned by current high oil prices and the GCC financial support in place for Bahrain.
- BBK's corporate-banking franchise, albeit small, primarily lends to Bahraini entities including the sovereign and the asset qualities are relatively stable – according to Fitch Ratings the bank's impaired loans ratio fell to 3% at end-2023 from 3.4% in 2022.
- The bank meanwhile maintained a strong capitalization ratio with 2023 CET1 ratio of 27% and Total CAR of 28.1%. The ratios are significantly above the regulatory threshold of 10.5% CET1 & 14% CAR
- The liquidity situation for the bank is robust, primarily funded through customer deposit, with loan-to-deposit ratio of 78% at the end of 2023

**(5) GIB extension trade**

➤ **Client sells GULINT 2.375% 25s @ 96.25 z+75**

➤ **Client buys GULINT 5.75% 29s @ 101 z+150**

- Client picks 75bps for extending just under 4years, one of the steepest senior curves in GCC space (for context most senior curves are 20-30bps apart for similar extension)
- Client moves into more recent and liquid issue
- A- rated bank with strong credit profile and remains govt owned
- Works Dv01 neutral i.e. 15mm x 5mm

**(6) UAE ALPHA: UAE → ADGB, pick 8bps in Zsp**

➤ **Client sells UAE 4.917% 33s @ 100.25 z+76**

➤ **Client buys ADGB 5% 34s @ 100.35 z+84**

- Client moves from Federal level to ADGB emirate
- 1 notch uptick in rating from AA- to AA
- Picks up 8 bps in Z
- Pick up in liquidity given ADGB is more recent issue
- ADGB trades inside UAE normally, and will revert in our opinion
- Works 15mm x 15mm

Continued...

## GCC & Egypt New Issue Monitor (1/2)

Security	Pricing Date	Issuer Type	Sukuk	ESG	CCY	Issue Tenor	Issue Amount (MM)	Pricing Spread	Current Price	Price Δ	Current Spread	Spread Δ
FABUH 4.779 1/29 S 4.5Y	8-Jan-24	Fin	Y	N	USD	5y	800	T+85	100.155	+0.155	T+120	+35
KSA 4.75 1/30 5.4Y	8-Jan-24	Sov	N	N	USD	6y	3250	T+90	100.429	+1.134	T+113	+23
KSA 5 1/34 9.4Y	8-Jan-24	Sov	N	N	USD	10y	4000	T+110	100.806	+1.813	T+118	+8
KSA 5.75 1/54 29.4Y	8-Jan-24	Sov	N	N	USD	30y	4750	T+170	99.862	+2.070	T+172	+2
KFHKK 5.011 1/29 S 4.5Y	10-Jan-24	Fin	Y	N	USD	5y	1000	T+105	100.364	+0.364	T+140	+35
OTELSU 5.375 1/31 S 6.5Y	17-Jan-24	Corp-GRE	Y	N	USD	7y	500	T+131	98.935	-1.065	T+198	+67
QIIKQD 5.247 1/29 S 4.5Y	17-Jan-24	Fin	Y	Y	USD	5y	750	T+160	101.359	+1.359	T+138	-22
BSFR 5 1/29 S 4.5Y	18-Jan-24	Fin	Y	N	USD	5y	700	T+105	100.336	+0.690	T+137	+32
PIFKSA 5 1/29 4.5Y	22-Jan-24	Corp-GRE	N	N	USD	5y	1750	T+115	100.798	+1.582	T+127	+12
PIFKSA 5.25 1/34 9.5Y	22-Jan-24	Corp-GRE	N	N	USD	10y	1750	T+145	101.310	+3.626	T+135	-10
PIFKSA 5.375 1/54 29.5Y	22-Jan-24	Corp-GRE	N	N	USD	30y	1500	T+205	91.250	+4.632	T+196	-9
QNBK 4.875 1/29 4.5Y	23-Jan-24	Fin	N	N	USD	5y	1000	T+100	100.734	+1.534	T+115	+15
BHRAIN 6 2/31 S 6.5Y	6-Feb-24	Sov	Y	N	USD	7y	1000	T+193	102.156	+2.156	T+188	-5
BHRAIN 7.5 2/36 11.5Y	6-Feb-24	Sov	N	N	USD	12y	1000	T+341	103.827	+3.827	T+328	-13
SECO 4.942 2/29 S 4.5Y	6-Feb-24	Corp-GRE	Y	N	USD	5y	800	T+90	100.890	+0.890	T+118	+28
SECO 5.194 2/34 S 9.5Y	6-Feb-24	Corp-GRE	Y	N	USD	10y	1400	T+110	101.896	+1.896	T+122	+12
ISCODV 4.95 2/29 S 4.5Y	7-Feb-24	Corp-GRE	Y	N	USD	5y	500	T+92	101.283	+1.283	T+110	+18
MAZOOON 5.5 2/29 S 4.5Y	7-Feb-24	Corp-GRE	Y	N	USD	5y	500	T+160	99.767	+0.408	T+200	+40
ESICSU 5.831 2/29 S 4.5Y	7-Feb-24	Corp	Y	N	USD	5y	700	T+180	101.467	+1.467	T+192	+12
SNBAB 5.129 2/29 S 4.6Y	20-Feb-24	Fin	Y	Y	USD	5y	850	T+90	100.589	+0.589	T+146	+56
FABUH 5 2/29 4.6Y	21-Feb-24	Fin	N	N	USD	5y	850	T+90	100.944	+1.685	T+123	+33
BINHLD 9.625 2/27 S 2.6Y	22-Feb-24	Corp	Y	N	USD	3y	500	T+515	102.022	+2.022	T+502	-13
DIBUH 5.243 3/29 S 4.6Y	26-Feb-24	Fin	Y	Y	USD	5y	1000	T+95	100.971	+0.971	T+147	+52
PIFKSA 5.171 3/31 S 6.6Y	27-Feb-24	Corp-GRE	Y	N	USD	7y	2000	T+85	101.730	+1.730	T+125	+40
SHJGOV 6.125 3/36 11.6Y	28-Feb-24	Sov	N	Y	USD	12y	1000	T+195	100.661	+1.572	T+232	+37
ALINMA Perp 3/29 S 4.6Y to Call	28-Feb-24	Fin	Y	N	USD	Perp	1000	T+234	102.450	+2.450	T+232	-2
ARACEN 9.5 3/29 S 4.6Y	29-Feb-24	Corp	Y	N	USD	5y	600	T+534	103.779	+3.779	T+469	-65
RJHIAB 5.047 3/29 S 4.6Y	5-Mar-24	Fin	Y	Y	USD	5y	1000	T+90	100.594	+0.594	T+136	+46
DHBKQD 5.25 3/29 4.6Y	5-Mar-24	Fin	N	N	USD	5y	500	T+130	100.101	+0.906	T+168	+38
MUBAUH 4.959 4/34 S 9.7Y	26-Mar-24	Corp-GRE	Y	N	USD	10y	1000	T+70	102.160	+2.160	T+97	+27
COMQAT 5.375 3/29 4.6Y	26-Mar-24	Fin	N	N	USD	5y	750	T+125	100.974	+1.518	T+160	+35
ADGB 4.875 4/29 4.7Y	23-Apr-24	Sov	N	N	USD	5y	1750	T+35	102.549	+2.948	T+76	+41
ADGB 5 4/34 9.7Y	23-Apr-24	Sov	N	N	USD	10y	1500	T+45	104.290	+4.632	T+74	+29
ADGB 5.5 4/54 29.7Y	23-Apr-24	Sov	N	N	USD	30y	1750	T+90	104.521	+6.194	T+116	+26
KIBKK Perp 5/29 S 4.7Y to Call	24-Apr-24	Fin	Y	N	USD	Perp	300	T+195	101.982	+1.982	T+264	+69
APICOR 5.428 5/29 4.7Y	25-Apr-24	Supra	N	Y	USD	5y	750	T+74	101.750	+1.750	T+141	+67
ADQABU 5.375 5/29 4.8Y	30-Apr-24	Corp-GRE	N	N	USD	5y	1250	T+80	103.140	+3.671	T+109	+29
ADQABU 5.5 5/34 9.8Y	30-Apr-24	Corp-GRE	N	N	USD	10y	1250	T+90	104.727	+5.220	T+115	+25
ALDAR 5.5 5/34 S 9.8Y	8-May-24	Corp-GRE	Y	Y	USD	10y	500	T+110	103.114	+3.751	T+135	+25
ISDB 4.754 5/29 S 4.8Y	8-May-24	Supra	Y	N	USD	5y	2000	T+50	104.239	+4.239	T+24	-26
RJHIAB Perp 5/29 S 4.8Y to Call	9-May-24	Fin	Y	Y	USD	Perp	1000	T+189	102.845	+2.845	T+215	+26
EIBUH 5.431 5/29 S 4.8Y	21-May-24	Fin	Y	Y	USD	5y	750	T+100	102.421	+2.421	T+133	+33
QATAR 4.625 5/29 4.8Y	21-May-24	Sov	N	Y	USD	5y	1000	T+30	101.650	+2.152	T+72	+42
QATAR 4.75 5/34 9.8Y	21-May-24	Sov	N	Y	USD	10y	1500	T+40	102.641	+3.176	T+71	+31
MUBAUH 5.294 6/34 9.8Y	23-May-24	Corp-GRE	N	Y	USD	10y	750	T+80	103.525	+3.525	T+112	+32
KSA 5.25 6/27 S 2.8Y	28-May-24	Sov	Y	N	USD	3y	1250	T+60	101.915	+2.227	T+90	+30
KSA 5.25 6/30 S 5.8Y	28-May-24	Sov	Y	N	USD	6y	1500	T+75	102.879	+3.381	T+115	+40
KSA 5.25 6/34 S 9.8Y	28-May-24	Sov	Y	N	USD	10y	2250	T+85	103.027	+4.190	T+114	+29
GULINT 5.75 6/29 4.8Y	29-May-24	Fin	N	N	USD	5y	500	T+130	102.238	+3.011	T+168	+38
NTBKKK 5.5 6/30 5.8Y	30-May-24	Fin	N	Y	USD	6y	500	T+95	101.831	+1.926	T+152	+57
BBK 6.875 6/29 4.8Y	30-May-24	Fin	N	N	USD	5y	500	T+230	101.271	+1.271	T+302	+72
MASQUH Perp 6/29 4.8Y to Call	3-Jun-24	Fin	N	N	USD	Perp	500	T+276	103.964	+3.964	T+272	-4
PIFKSA 5.125 6/29 4.8Y	4-Jun-24	Corp-GRE	N	N	GBP	5y	300	UKT+115	100.481	+0.959	T+135	+20
PIFKSA 5.625 6/39 14.8Y	4-Jun-24	Corp-GRE	N	N	GBP	15y	350	UKT+125	100.273	+0.634	T+144	+19
ARADAD 8 6/29 S 4.9Y	11-Jun-24	Corp-GRE	Y	N	USD	5y	400	T+358	101.892	+1.892	T+399	+41
UAE 4.857 7/34 9.9Y	25-Jun-24	Sov	N	N	USD	10y	1500	T+60	102.731	+2.731	T+80	+20
SIB 5.25 7/29 S 4.9Y	26-Jun-24	Fin	Y	N	USD	5y	500	T+105	100.553	+1.142	T+159	+54
ENEDEV 5.662 7/31 S 6.9Y	26-Jun-24	Corp-GRE	Y	N	USD	7y	750	T+135	100.927	+0.927	T+190	+55
WARBAB 5.351 7/29 S 4.9Y	3-Jul-24	Fin	Y	Y	USD	5y	500	T+105	101.078	+1.078	T+157	+52

Source: Bloomberg/FAB

## GCC & Egypt New Issue Monitor (2/2)

Security	Pricing Date	Issuer Type	Sukuk	ESG	CCY	Issue Tenor	Issue Amount (MM)	Pricing Spread	Current Price	Price Δ	Current Spread	Spread Δ
SHJGOV 4.625 1/31 6.5Y	10-Jul-24	Sov	N	Y	EUR	7y	500	MS+190	100.067	+0.415	MS+210	+20
ARAMCO 5.25 7/34 9.9Y	10-Jul-24	Corp-GRE	N	N	USD	10y	2000	T+105	101.917	+2.577	T+128	+23
ARAMCO 5.75 7/54 29.9Y	10-Jul-24	Corp-GRE	N	N	USD	30y	2000	T+145	99.703	+2.240	T+173	+28
ARAMCO 5.875 7/64 39.9Y	10-Jul-24	Corp-GRE	N	N	USD	40y	2000	T+155	99.825	+2.186	T+184	+29
FABUH 5.804 1/35 10.4Y	9-Jul-24	Fin	N	N	USD	11y	750	T+155	100.686	+0.686	T+213	+58
GASBCM 5.8528 2/36 11.6Y	17-Jul-24	Corp-GRE	N	N	USD	12y	1400	T+170	101.213	+1.213	T+199	+29
GASBCM 6.1027 8/42 18Y	17-Jul-24	Corp-GRE	N	N	USD	18y	1600	T+195	100.808	+0.808	T+231	+36
MASDAR 4.875 7/29 5Y	18-Jul-24	Corp-GRE	N	Y	USD	5y	500	T+95	100.099	+0.802	T+132	+37
MASDAR 5.25 7/34 10Y	18-Jul-24	Corp-GRE	N	Y	USD	10y	500	T+115	101.024	+1.554	T+140	+25
RAKBNK 5.375 7/29 5Y	18-Jul-24	Fin	N	Y	USD	5y	600	T+135	101.280	+1.557	T+154	+19

Source: Bloomberg/FAB

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