Credit Trading Daily Comment

Global Markets

2nd October 2024

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Market Commentary

Risk assets remain resilient despite the geopolitical escalation with spreads opening unchanged to +5bps. Overnight saw Middle East hostilities rise as Iran fired ballistic missiles at Israel; Iran said its action has concluded unless there is further retaliation while Israel vowed to retaliate. While casualties from the strike were minimal, higher tensions and greater risk of wider regional conflict saw a rush to haven assets with treasuries rallying. VIX spiked but pulled back, closing the day +15% while US equities closed lower (S&P -0.9%, Nasdaq -1.4%). US JOLTS and ISM data came in mixed (more job openings than survey but lower ISM manufacturing index than survey), sustaining geopolitics as the major macro market mover. APAC sees the return of HK from Golden Week holidays, although China remains out (India off today as well), with HK equities bucking the trend opening up and continuing last week's China stimulus led rally. Treasury futures are steady so far, although most of the haven bid from yesterday's session are roughly in place, with USD/JPY modestly lower, sitting on the 143 handle. Commodities spiked higher and safe heavens were bid into the close. US 10 year touched 3.70% -8bp tighter and oil jumped by over 4% on the day. Credit indices XOVER closed 6bp wider, with CDX EM down 10c.

GCC credit was broadly stable with the exception of duration in IG space, where we saw dealers hitting low bids around 0.5pt lower than screen marks, however the panic was quickly faded. The HY space remains strong – Bahrain sukuk curve continues to flatten as we see strong buying interest in sukuk bonds of Bahrain 2030 and 2031, driven by local demand. Egypt marched higher, with the most active area being the long end/low cash price section of the curve as dealers drove some bull flattening. Jordan has followed suit – where we saw real money adding risk in Jordan 2029 and 2030, even after the headlines into close - bonds traded unchanged on the day.

The primary market pipeline remains busy, Africa Finance Corporation priced their 5 year senior bond at 5.55% with IPTs at 5.75%. Commercial Bank of Dubai mandated banks for a new 5 year conventional bond. Looking ahead for today, we expect markets to trade cautiously given the heightened intraday volatility and headline risk - credit markets will watch closely on how easily primary deals are still placed given the escalating geopolitical risks – any signs of a pause or delay could negatively impact secondary markets.

The technical backdrop is not one to be underestimated however – so far flow wise, we continue to see accounts raising cash by selling short dated bonds across sectors. During the month of September, the grab for IG risk was significant as rates rallied, but really the general market strength lent itself to a firmer backdrop for beta to perform hence the compression theme played out, and we would not be surprised to see some of that move to reverse in the short term.

More importantly however, a weaker dollar has been closed linked to inflows into EM, with last week seeing the largest inflows into EM funds since January 2023. Clearly issuance picked up through September, but in our opinion, much less than in previous years. The 50bps Fed rate cut spurred issuers to action, but what was startling was the lack of NIP across benchmark names. Most issuers printed on or at times through the secondary curve with $76bn of hard currency issuance printing across the EM credit space in September alone, indicative of demand for GCC credit overall.

Synthetics & Rates	Category	Prev day Close	Change (in basis points)		
			1D	1W	1M
JPM EMBI Global Spread bps	Index	323.1	+0.6	-10.3	-18.5
GCC IG + HY Spread (BBG) bps	Index	113.2	+3.0	-2.0	+6.6
ITRX Main 5Y Spread bps	CDS	60.0	+1.1	+1.2	+7.4
ITRX Xover 5Y Spread bps	CDS	316.9	+6.1	+2.3	+28.4
5Y US Treasury Yield	Rates	3.509%	-5.0	+4.2	-19.4
10Y US Treasury Yield	Rates	3.732%	-4.9	+0.3	-17.2

Stocks / Commodities / Currencies	Category	Prev day Close	Change (in %)		
			1D	1W	1M
Dow Jones Inds. Avg (US)	DM - Equities	42,157	-0.4%	-0.1%	+1.4%
S&P 500 (US)	DM - Equities	5,709	-0.9%	-0.4%	+1.1%
Nasdaq Composite (US)	DM - Equities	17,910	-1.5%	-0.9%	+1.1%
Nikkei 225 (Japan)	DM - Equities	38,652	+1.9%	+1.9%	+0.0%
Hang Seng (Hong Kong)	EM - Equities	21,134	+2.4%	+15.8%	+17.5%
CSI 300 (China)	EM - Equities	4,018	+8.5%	+25.1%	+21.0%
Abu Dhabi - ADX	EM - Equities	9,406	+1.8%	-0.6%	+1.3%
Saudi Arabia	EM - Equities	12,254	+0.2%	-0.1%	+0.5%
Egypt	EM - Equities	31,866	+0.9%	+3.2%	+3.1%
DXY US$ Index	Currency	101.19	+0.4%	+0.7%	-0.5%
WTI Oil $/bbl	Commodity	69.83	+2.4%	-2.4%	-5.1%
Gold spot $/oz	Commodity	2,663	+1.1%	+0.2%	+6.4%

Source: Bloomberg/FAB

Major Headlines

- Abu Dhabi reports 4.1% GDP growth in Q2 2024; non-oil economy grows 6.6% (Source: WAM)
- Abu Dhabi breaks mortgage records in Q3, with $3.7bln in transactions (Source: Zawya)
- ADNOC to acquire Germany's Covestro for $16bn to become global chemicals major (Source: The National)
- GCC sovereign wealth funds deployed $55bn in first nine months of 2024 (Source: Zawya)
- Egypt's balance of payment records overall surplus of $9.7bn in FY2023/24 (Source: Arab Finance)
- IMF to conduct 4th review of Egypt's economic program in November (Source: Arab Finance)

Key Macro Data Releases

Region	Data series	Release Date	Period	Survey Median	Prior Reading
US	MBA Mortgage Applications	02/Oct	Sep 27	-	11.0%
	ADP Employment Change	02/Oct	Sep	125k	99k
	Initial Jobless Claims	03/Oct	Sep 28	221k	218k
	Factory Orders	03/Oct	Aug	0.1%	5.0%
	Durable Goods Orders	03/Oct	Aug	0.0%	0.0%
	ISM Services Index	03/Oct	Sep	51.7	51.5
	UAE Non-Oil PMI	03/Oct	Sep	-	54.2
	Dubai Non-Oil PMI	03/Oct	Sep	-	54.2
	M3 Money Supply YoY	07-15/Oct	Jul	-	14.7%
	Saudi Non-Oil PMI	03/Oct	Sep	-	54.8
	Saudi Industrial Production YoY	10/Oct	Aug	-	1.6%
	Kuwait CPI YoY	02/Oct	Aug	-	3.0%
	Bahrain CPI YoY	02/Oct	Aug	-	1.1%
	Bahrain GDP Constant Prices YoY	02-05/Oct	2Q	-	3.3%
	Egypt GDP Constant QoQ	03/Oct	2Q	-	-7.6%
	Egypt Non-oil PMI	03/Oct	Sep	-	50.4
	Egypt Net Reserves	07/Oct	Sep	-	$46.6b
	Egypt Urban CPI YoY	09/Oct	Sep	-	26.2%
	Egypt Urban CPI MoM	09/Oct	Sep	-	2.1%
	Egypt CPI Core YoY	09/Oct	Sep	-	25.1%

Source: Bloomberg/FAB

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

(1) FED TRADES: EXTENSIONs IN VOGUE → 4 GCC BANK extension switches...

(1.a) DIB extension switches

- **Client sells DIBUH 5.493% 11/30/27 @ 103.00 z+121, y+4.45%**
- **Client buys DIBUH 5.243% 03/04/29 @ 102.85 z+136, y+4.55%**

  - Client picks 15bps in Z for extending only 15 months
  - Client picks up 0.1% in yield, despite yield curve being flat
  - Client takes out 15c in cash
  - Works 10mm x 10mm

(1.b) GULINT extension switches

- **Client sells GULINT 2.375% 09/23/25 @ 97.65 z+90, y+4.75%**
- **Client buys GULINT 5.75% 06/05/29 @ 105.15 z+135, y+4.55%**

  - Client picks 45bps in Z for extending just under 4 years
  - 11bps a year is too steep for any GCC financial!
  - Client moves into more liquid recent issue
  - Works 10mm x 10mm

(1.c) FABUH extension switches

- **Client sells FABUH 4.581% 01/17/28 @ 101 z+100, y+4.25%**
- **Client buys FABUH 4.779% 01/23/29 @ 102 z+110, y+4.27%**

  - Client picks 10bps in Z for extending 1 year
  - Client moves into more liquid recent issue
  - Client remains within sukuk securities
  - Works 10mm x 10mm

(1.d) EIBUH extension switches

- **Client sells EIBUH 1.827% 09/23/25 @ 97.25 z+75, y+4.62%**
- **Client buys EIBUH 5.431% 05/28/29 @ 104.25 z+125 y+4.42%**

  - Client picks 50bps in Z for just under 4yr extension - one of the steepest curves in the Sukuk space
  - Client moves into more liquid recent issue
  - Works 10mm x 10mm

(2) ADCB CAPITAL STRUCTURE ARBITRADE.... SNR → LT2, pick 80bps!!!

- **Client sells ADCBUH 5.5% Jan 29s @ 104.00, z+110, y+4.47%**
- **Client buys ADCBUH 5.361% Mar 35s LT2 @ 100.80, z+190, y+5.20%**

  - Client moves down capital structure from senior to Subordinated, for a pick-up of 80bps!
  - Client extends 8month in duration when pricing to call (call date: 10-Sep-2029)
  - Client picks up 3/4% in yield
  - Client takes out over 3pts in cash
  - Client moves into smaller, more sought after sub deal
  - Works 10mm x 10mm

(3) ADCB CAPITAL STRUCTURE ARBITRADE.... SNR → T1, pick 165bps!!!

- **Client sells ADCBUH 5.375% Jul 28s @ 103.20, z+105, y+4.45%**
- **Client buys ADCBUH 8.0% PERP @ 107.00, z+270, y+6.10%**

  - Client moves down capital structure from senior to perpetual with a call in Nov 2028, for a pick-up of 165bps!
  - Client remains in same maturity profile
  - Client picks 1.65% in yield!
  - Client gets huge uptick in coupon and hence carry, justifying cash spend at outset of trade
  - Works 10mm x 10mm

(4) BANK ALPHA: ADCB → BSF, pick 20bps in Zsp

- **Client sells ADCBUH 5.50% Jan 29s @ 103.80, YTM 4.50%, Z+105**
- **Client buys BSFR 5.00% Jan 29s @ 101.30, YTM 4.70%, Z+125**
  - Client moves out of expensive Abu Dhabi risk, into KSA
  - Client picks up 20bps in Z spread, ¼% pick up in yield
  - Client takes out 2.5pts in cash
  - Client remains in exactly the same duration & tightening is expected if rates get a decent cut lower
  - Client drops only 1 notch in rating from A to A-
  - Client moves out of conventional to well sought after sukuk paper
  - Works 10mm x 10mm

(5) OMAN Sovereign Steepener

- **Client sells OMAN 7⅜ 10/28/2032 @ 114.50, YTM 5.16%, Z+187**
- **Client buys OMAN 5⅝ 01/17/2028 @ 102.50, YTM 4.96%, Z+149**
  - Take out 12pts in cash, Oman 32 is the highest cash price on the curve technically has reached its potential upside proven by lack of secondary market activity, and rally in cash price in Q3 2024 was driven mostly by rates.
  - Recent rating upgrade by S&P to BBB- positive for front end especially in 5 year tenor, 2028 and 2029 which will benefit from ETF and index buyers once the sovereign gets upgraded by Fitch and Moodys in coming months (in our view).
  - The slope of the curve too flat where BBG prices marked at 31bp versus tradeable level of 38bp. We expect normalization and steeper curve towards 60bp
  - Works 25x 25

Fundamentals: The recent S&P upgrade to IG is based on various positive expectation in the short-term (3-year horizon through 2027):

(1) Govt will post fiscal surpluses over 2024-2027, averaging 1.9% of GDP
(2) External debt levels expected to reduce further to ~29% of GDP by 2027, which has already declined to around 35% of GDP this year from 68% of GDP in 2020
(3) Oman's fiscal resilience against external shocks has strengthened through debt reduction and various fiscal reforms it has taken in past four years
(4) Deleveraging at Omani GREs underpins the credit outlook: Total GRE debt have now declined to $33.8bn (30% of GDP) in June 2024, compared with a peak of $35.9bn (41% of GDP) at end-2021
(5) Govt is expected to continue to reduce its footprint in the economy and uplift the non-oil private sector to attract more foreign direct investment

(6) RISK OFF TRADE IDEA: OMAN SWITCH

- **Client sells OMAN 7.375% Oct 32s @ 114, YTM 5.24%, Z+185**
- **Client buys OMAN 4.750% Jun 26s @ 99.40, YTM 5.10%, Z+132**
  - Client takes out 14.6pts in cash with drop in just 53bp in Zspread
  - Client reduces volatility in portfolio by reducing duration
  - Curve slope (OMAN32-OMAN26) reached extreme level of 53bp, 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

(7) 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

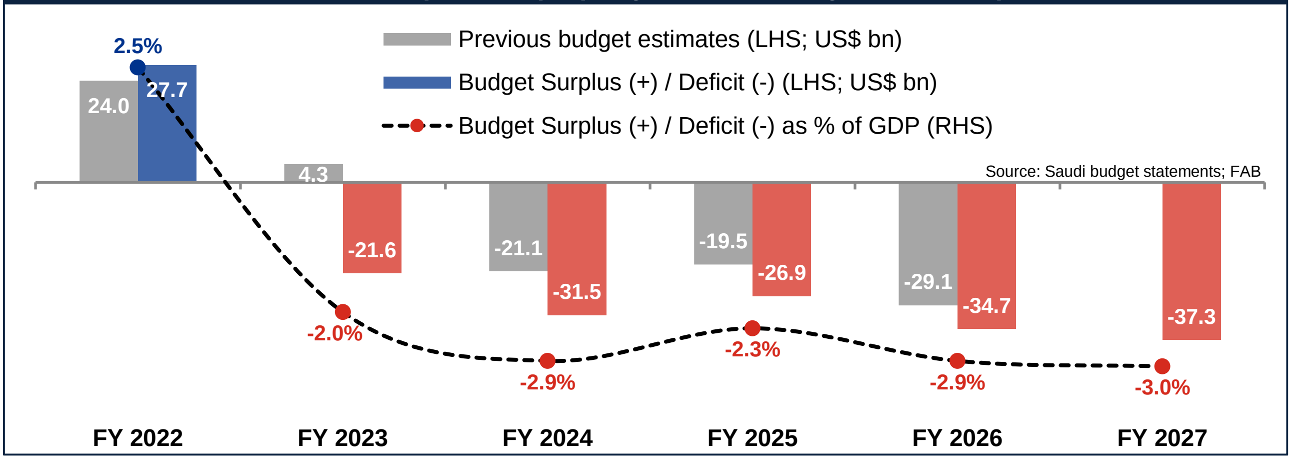
Credits specific commentary

(1) Saudi Arabia this week revised up its fiscal deficit estimates for 2024 to 2027
Accumulated deficit between 2024 and 2027 would be around $130bn

Budget Deficit:

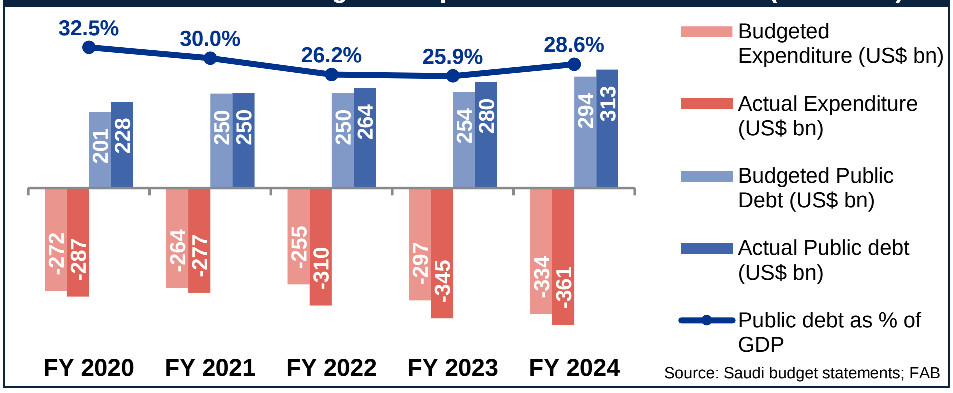
- The government revised up its 2024 full year budget deficit to SAR 118bn ($31.5bn) or 2.9% of GDP vs its previous estimate of $21bn or 2% of GDP
- H1 budget deficit was SAR 28bn – so the bulk of the FY deficit (SAR 90bn) will be booked in H2
- KSA now projects deficit till 2027 and raised the estimates for 2025 and 2026 as compared to the previous update
- FY 2025 deficit seen at $26.9bn or 2.3% of GDP vs previous forecast of $19.5bn/1.6% of GDP
- FY 2026 deficit estimated at $34.7bn or 2.9% of GDP vs previous forecast of $29.1bn/2.3% of GDP
- FY 2027 deficit is projected at $37.3n or 3% of GDP
- *The accumulated deficit between 2024 and 2027 would be around $130bn*

KSA fiscal position (as per govt latest budget statement)



Our view on the budget estimates: Historically the Saudi govt tend to overrun its budgeted expenditure and as a result, the public debt stock too overrunning the budget (please see below chart). Based on this observation, and the quantum of projects the kingdom in executing as part of its Vision 2030 diversification strategy, we believe that the 2025 expenditure and deficit projections are conservative and the govt would overrun these estimates.

Saudi overrunn of budgeted expenditure and debt levels (historical)



As a result we continue to expect high external debt supply from Saudi in the coming years. It is indeed worth highlighting a line from the budget statement, which said: "Additional proactive financing may also be considered based on market conditions to manage future debt principal repayment, in addition to pursuing government alternative financing for capital and infrastructure projects."

Public Debt:

- Saudi public debt reached SAR 1,149bn ($306.4bn) by the end of H1 2024
- 59% of current total public debt is domestic debt and 41% debt are external
- The govt said it raised total SAR 172bn ($45.9bn) from financing activities in H1
  - SAR 68bn ($18.1bn) came from external borrowings; 40%
  - SAR 104bn ($27.7bn) came from Domestic borrowings; 60%
- The govt expects the public debt to reach SAR 1,172bn ($313bn) by end of 2024 (28.6% of GDP). This means govt debt will grow by SAR 3bn ($6.1bn) in H2, which in our opinion would mostly come from domestic borrowings.
  - $3.15bn already raised through the Q3 riyal sukuk programme and can easily expect another $3bn in Q4

Real and Nominal GDP:

- The govt estimates Real GDP growth of 0.8% for the full year of 2024 vs its 4.4% projection in December budget statement (real GDP declined 1% in H1 2024; Oil GDP fell 10% in H1 and non-oil GDP grew 4.1%)
- 2024 Non-oil GDP growth seen at 3.7% vs 6.3% projection in the December budget statement
- The govt has also scaled down nominal GDP number for 2024 to SAR 4,091bn from SAR 4,261bn, that's down by SAR 170bn or $45bn
- Real GDP growth however expected to accelerate to 4.6% in 2025, as the govt aims to increase its oil production. The projection is similar to the projections from the IMF and S&P

Budget Revenues and Expenditure:

- Revenues estimate for FY 2024 has been revised upward to SAR 1,237bn($330bn), up 5.5% from the original budget and 2% higher from 2023 actual revenue
    - Tax revenues would account 29% of total govt revenue at SAR 362bn ($97bn);
    - H1'24 govt revenue grew 8.6% to SAR 647bn, mean govt is expecting to book SAR 590bn revenue in H2
        - The growth mainly came from 10.2% jump in oil revenue due to the enhanced performance-linked dividends from Aramco
        - Non-oil revenue grew 6.2%
            - Tax revenue was SAR 199bn (31% of total revenue), up 4.5% yoy

- Expenditure estimate for FY 2024 has also been revised-up to SAR 1,355bn ($361bn), up 8.3% from the original budget and 2% higher from 2023 actual revenue
    - SAR 1,158bn of spending would come from OPEX, 9% higher than the original budget, as the govt is increasing the social benefits by 54.3% compared to approved budget
    - Capex expected to reach SAR 198bn, up 4.6% from the budget
    - H1'24 expenditure jumped 11.7% yoy to SAR 675bn
        - The govt said the jump came from 7.6% rise in OPEX to SAR 575bn (55% of the increase came from spending on subsidies)
        - Expenditures on financing expenses increased by 11.9%
        - Capex was SAR 99bn, up 43.2%

(2) Saudi Arabia's credit outlook upgraded to "Positive" by S&P and rating was affirmed at 'A':

S&P's upgraded the outlook to positive on Sept 13, citing:

(1) Strong non-oil growth prospects over the medium term amid wide-ranging reforms and investments to expand the non-oil sector to diversify the economy away from oil; GDP growth could average 4.3% over 2025-2027
(2) Recalibration of some large infrastructure projects would help to contain pressure on public finances; and the fact that even as the government and wealth fund PIF accumulate higher debt, government will remain in a strong net asset position of above 40% of GDP through 2027
(3) Economic resilience against ongoing volatility stemming from the hydrocarbon sector

S&P highlighted the below points as key credit strength and driver of the change in outlook:

- Current investments (into the non-oil sector) will spur domestic consumption by the kingdom's over 35 million (largely young) population
- Investments would potentially increase the productive capacity of sectors like manufacturing, logistics, & mining
- Over the longer term, Saudi Arabia will likely emerge as a more diversified economy, with more jobs created for the young population, and broader workforce participation
- Non-oil sector (including government activities) already account for about 70% of GDP
- Significant growth potential for the tourism sector. The sector (constituting both religious and non-religious tourism) currently contributes about 4% of GDP. In 2023, Saudi Arabia's tourist numbers topped that of the G-20 countries and tourism receipts comprised 9% of current account receipts, up from 5% the year before.
- PIF continues to pump $40bn a year in investments in the local economy toward giga/mega projects including Neom, the Quiddiya entertainment park, and the Red Sea Project
- S&P expects the Saudi economy to grow just 1.4% in 2024, relative to last year's 0.8% contraction, but growth will accelerate to average 4.3% over 2025-2027 with the pick-up in construction for Vision 2030 projects and the services sector, supported by consumer demand and an expanding workforce.
- The newly passed *investment law*, effective from February 2025, seeks to achieve parity between domestic and foreign investors and simplify rules and regulations to make foreign investment more attractive
- Large hydrocarbon reserves and low production costs, alongside large cash buffers at national oil company Saudi Aramco, provide Saudi Arabia some resilience to a global energy transition to low-carbon alternatives

- Dividends from Aramco (including performance-linked dividends) are set at about $43bn in FY 2024 (nearly 4% of GDP). These exceptional dividends could continue beyond this year given the suspended capex on their maximum sustainable capacity targets

S&P's view on Saudi fiscal metrics:

(1) Govt to run fiscal deficits of 2%-3% of GDP through 2027, which is expected to average 2.4% over 2024-2027;
(2) Public investment will be the key driver of government spending growth and fiscal deficits
(3) Net government asset position will reduce to 44% of GDP in 2027, from around 60% estimated in 2023;
(4) Gross general government debt rising gradually to about 28% of GDP in 2027, from 22% in 2023
    a. Govt is mainly targeting external debt issuances through Eurobonds, sukuk, and alternative funding transactions such as project finance
(5) Current account surpluses averaging 1.2% of GDP over 2024-2027, following a surplus of 3.2% in 2023

S&P said it could upgrade Saudi Arabia's rating in next two years if:

(1) Ongoing reforms lead to steady growth in GDP per capita;
(2) GDP growth is supported by continued momentum in non-oil growth
(3) Institutional landscape in the country strengthens, which could be evident through:
    a. Effective implementation of the ongoing economic transformation; and
    b. Development of domestic capital markets

S&P also said it could revise the outlook to stable if it sees:

(1) Pronounced fiscal weakening, or
(2) If real per capita GDP growth were to fall relative to its current forecasts
(3) A material rise in domestic or regional instability

Some of the challenges and risk highlighted by S&P are:

(1) Execution risks to reforms and investments could arise from a sharper fall in oil prices and volumes and the ensuing impact on public finances
(2) Geopolitical risks from regional instability

(3) Oman's credit rating was upgraded to investment grade by S&P on 27th September; Outlook stable:

S&P cited the following rationale for the rating upgrade as it concluded the positive review it initiated in March this year and upgraded the long-term ratings on Oman to 'BBB-' from 'BB+

(1) The Omani government, along with many state-owned enterprises (SOEs), is continuing to deleverage its balance sheet
(2) The authorities also remain committed to advancing their longer-term structural reform agenda aimed at strengthening economic resilience.
(3) S&P forecasts that Oman will be in a small net general government asset position by the end of 2024, compared with a net debt position of 19% in 2021.

S&P highlighted the following upside and downside scenarios to the BBB- rating:

- <u>Upside scenarios</u>: S&P said it could raise Oman's ratings *over the next two years* if:
    1. Reforms lead to steady growth in Oman's GDP per capita supported by continued momentum in non-oil growth.
    2. Measures to strengthen institutions that, for example, support economic diversification and the development of domestic capital markets, could be positive for the ratings.
- <u>Downside scenarios</u>: S&P said it could lower the ratings if:
    1. Oman's fiscal and economic reform implementation were to slow, or
    2. An unfavorable external environment such as a terms of trade shock were to result in fiscal deficits and net debt levels significantly above our forecasts

S&P on Oman's improving public finances & GDP:

- Govt expected to post fiscal surpluses of 1.9% of GDP over 2024-2027
    - S&P assuming Brent oil prices of about $80 per barrel (/bbl) from 2025 until 2027
- External debt levels are expected to *reduce further to 29% of GDP by 2027*, from 68% of GDP in 2020
- Oman's fiscal resilience against shocks has strengthened, even though overall fiscal position still remains highly dependent on oil price movements

- Authorities remain committed to rationalizing expenditure by phasing out energy subsidies.
- Non-hydrocarbon govt revenue will increase through various reforms
- Govt accumulating sizable liquid assets and expected to average 36% of GDP until 2027:
  - Govt continues to accumulate sizable liquid buffers via its deposits in domestic institutions and the central bank, alongside its sovereign wealth fund - the Oman Investment Authority (OIA).
- Oman's gross foreign exchange reserves have stabilized at about $17bn, owing to lower government foreign currency debt issuance and external debt repayments.
- S&P expects the reserves to remain at this level through 2027
- GDP expected to grow about 2% per year on average over 2024-2027
- S&P estimates the government external assets at about 30% of GDP

S&P on Oman's structural reforms:

- Govt introduced value-added tax (VAT) in 2021 and plans to raise the VAT rate
- Authorities prioritize improving corporate tax administration and collection over raising government fees
- Gradually cutting electricity, water and waste management subsidies
- Put a tighter rein on capital and current spending
- Reforming public wages
- Improving transparency and data disclosure as the govt now publish quarterly real GDP data, monthly fiscal positions, a yearly international investment position, and an IMF Article IV.
- Govt is set to implement personal income tax on higher earners

S&P on deleveraging at Omani GREs, supporting the govt's credit outlook:

- Total government-related entity (GRE) debt now declined to $33.8bn (30% of GDP) in June 2024, compared with a peak of $35.9bn (41% of GDP) at end-2021, as the govt reorganized its GRE sector over the past few years to enhance operational efficiencies and improve financial positions through asset divestments
- S&P assumes that the govt will continue to reduce its footprint in the economy – it will move into a regulator role (from owner) – to help develop the non-hydrocarbon private sector and attract foreign direct investment.
- Established Oman Investment Authority (OIA) in 2020 to better manage the government's financial assets and public enterprises. Most GREs are now managed by OIA – e.g. – OQ, Nama Holding
- Established Energy Development Oman (EDO) in 2020 to help realize efficiencies and pursue new growth opportunities in Oman's energy sector. Transferred ownership of Petroleum Development of Oman (PDO) and its 60% stake in the Block 6 oil concession to EDO in 2021. Block 6 is the country's largest oil and gas field.
- In 2022, the govt established Integrated Gas Co. (IGC) to oversee the gas industry along the similar lines as EDO's oversight of the oil sector.
- Total GRE debt now declined to $33.8bn (30% of GDP) in June 2024, compared with a peak of $35.9bn (41% of GDP) at end-2021.
- In 2023, the government launched the OMR 2bn ($5.2bn) Future Fund Oman to invest in the non-hydrocarbon economy and attract foreign investment. The fund will be financed by the Ministry of Finance by up to OMR 400m (about $1bn) annually over the next five years.

(4) Moody's upgraded Oman's outlook to "Positive" on Aug 29 and affirmed the rating at Ba1 citing:

(1) Further improvements in Oman's government debt metrics observed over the past nine months
(2) Increased likelihood that Oman's fiscal strength could be sustained at a stronger level

Moody's highlighted the below points as key credit strength and driver of the change in outlook:

- Declining debt burden was achieved through the Govt's prudent fiscal management of the windfall from revenue gains from elevated oil prices
- Govt debt declined ~27% in nominal terms during 2022-2023 and fell further by 5.6% in Jan-July 2024
- Govt debt now reached ~34% of the projected full-year GDP in July'24, from the peak of 67.9% of GDP in 2020.
- Stock of foreign-currency denominated government debt dropped to 24% of the projected full-year GDP from more than 50% of GDP in 2020.
- Debt reduction over the past two years has been achieved without drawing down its stock of financial assets
- Declining debt burden has expanded the government's fiscal space and strengthened the capacity to absorb unexpected external shocks
- Stronger debt metrics afford the govt additional time to implement further structural reforms and achieve greater economic and fiscal diversification
- The overall gains in fiscal strength indicators appear more sustainable in the medium term

Moody's said it could upgrade Oman's Ba1 rating if it feels more confident that the improvements in govt debt metrics achieved during 2023 can be sustained in the medium term, which could be evidenced through:

(1) Combination of declining non-hydrocarbon fiscal and current account deficits
(2) A further expansion of the government's non-hydrocarbon revenue base
(3) A trend improvement in non-hydrocarbon sector growth
(4) A strengthening of the medium-term fiscal planning framework, jointly pointing to gradually diminishing economic and fiscal reliance on the hydrocarbon sector and improving capacity to absorb hydrocarbon revenue shocks.
(5) In near term, Moody's would like to see the strengthening of the public finance framework through an update of a medium-term fiscal program that clearly outlines the government's spending objectives and its policy reaction function in the face of external shocks and a progress on implementing the mooted personal income tax and by the passing of a 2025 budget that is consistent with a stable or further declining government debt trajectory.

(5) Egypt: Overall news flow in past few weeks have been positive and reflecting in the fundamentals:

*<u>Asset Sale</u>: During the weekend Egypt made some announcement towards asset sale

- Govt said it would sell the 20% stake in holds in Alex Bank to Intesa Sanpaolo, which already owns 80% in Alex
- The govt also announced that it would sell a stake in United Bank through local IPO in Q1 of 2025
- This can be seen as some progress on asset sales, one of the key reform agenda as demanded by the IMF and others who bailed out the nation
  - Egypt is targeting to raise around $2bn-$5bn from asset sale by the end of the current financial year which finishes in in June 2025
  - Indeed, last year the country said it would sale stake in 32 state owned entities ranging from banking and oil to real estate, insurance and ports

*<u>Eurobond issue</u>: According to Bloomberg News, Finance Minister Ahmed Kouchouk told international investors in several in-person meetings in London last week that Egypt is planning to sell dollar debt, or eurobonds, as soon as this fiscal year

- This would be Egypt's first foray into US$ bond sale since 2021
- As the country was grappling through the fiscal challenges, Egypt took a pause from the mainstream Eurobonds market, but did issue a Samurai bond in 2022 and a Panda bond n 2023 to diversify its sources of funding

*<u>FDI</u>: On the FDI side also, Egypt is progressing well capitalizing its GCC ties. The credit has already benefitted from last week's news that PIF would invest $5bn in Egypt. More details have now emerged:

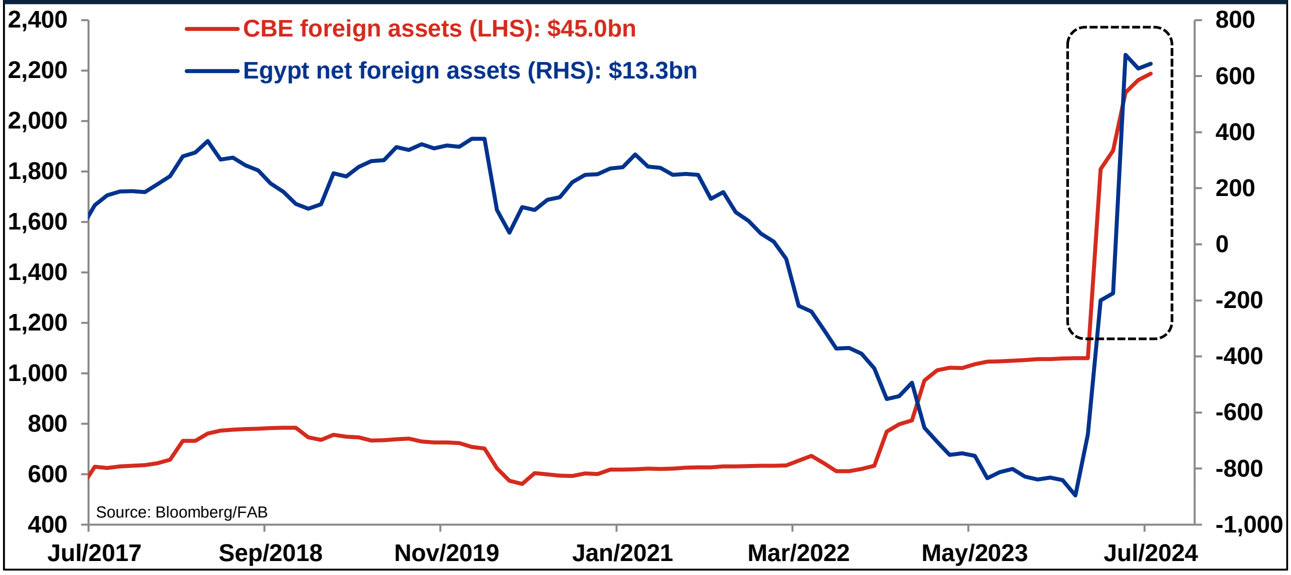
- This $5bn investment is on top on the support Egypt already received from Saudi - e.g. -
  - The $5.3bn medium to long-term deposits Saudi has made in Egypt's central bank
  - Saudi also made a $5bn short-term deposits in 2022, which is believed to have been rolled over
- The $5bn PIF investment is the 1st phase of investment commitments from Saudi, so more could follow later
- Egypt also said it has identified and will offer investors 5 new coastal areas sites for development along the Red Sea, including Ras Benas. This is aimed to attract further investments in deals similar to UAE's $24bn Ras El-Hekma agreement, prime minister Madbouly said last week

*<u>Remittance inflows</u>: On the remittance front, the inflows have increased by 32.4% yoy in the first seven months of 2024 to reach $15.5bn. The CBE noted that remittances in July 2024 rose for the fifth consecutive month, soaring by 86.8% year-on-year reaching $3bn

*<u>*All these developments are now reflecting positively in Egypt's net foreign assets (NFAs), Fiscal Metrics & Govt Budget*</u>

- NFA rose by $220m in July to reach $13.3bn
- It is the third straight month to stay positive, after staying deeply negative for more than two years, until it secured the $35bn investment deal from UAE in February
- The central bank indeed turned profitable for the first time in seven years, reporting EGP 22.83bn ($469m) profit for the last fiscal year ending June 2024. The CBE reported a loss of EGP 86.28bn in FY 2022/2023.
- Egypt's FY 2024/2025 Citizen Budget targets GDP growth of 4.2% vs 2.9% growth last fiscal year.
- The budget indeed projects expected total investment in FY 2024/25 to EGP 2tn ($41bn), saying private sector anticipated to contribute 50% of this total, driven by significant projects such as Ras El Hekma and the implementation of the state ownership policy
- The govt also targets inflation to decline to 18% from current 24-25% level
- *As per latest govt data Egypt's central govt debt as % of GDP now declined 91.4% at the end of June 2024, from 95.7% at the end of June 2023*
  - External debt as % of GDP now stands at 27.1% down from 25.2% at the end of June 2024
  - Domestic debt as % of GDP declined to 64.3% from 70.5%

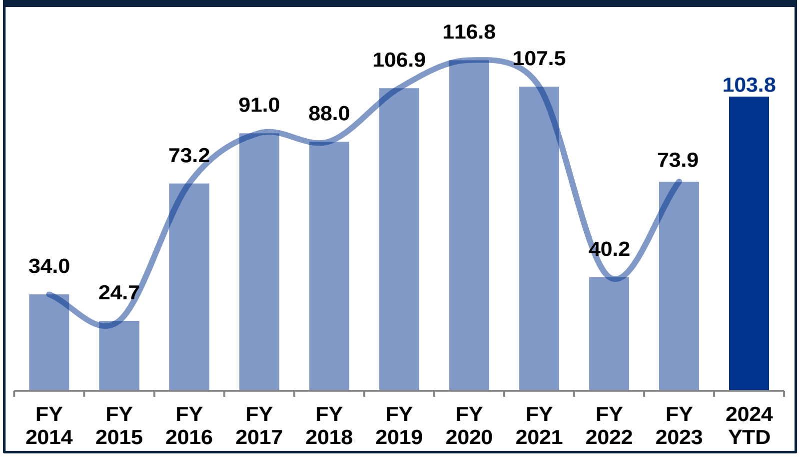
Assisting the road to recovery



(6) YTD new issuance from the 'GCC & Egypt' (hard currency bonds) – now reached $104bn and surpassed the $100bn mark for the first time after FY 2021 and crossed this level for the fourth time in the regional market's history.

1. Issuance from Saudi Arabia now accounts 52% of this, taking the figures to ~$54bn – that's the highest amount of issuance from KSA ever in a single year, surpassing FY 2023 when it hit $41bn
   - KSA Sovereign bonds were $17bn
   - PIF issued $9.8bn
   - Aramco raised $9bn and Greensaif Pipeline issued $3bn and
   - KSA Financials have printed around $11.3bn and expect more to come from them
2. UAE issuers have raised ~$33bn this year accounting 32% of the total issuance
3. In terms of Sukuk and Conventional split – volume wise the ratio is 63%:37%
4. However, by count we have seen 45 Sukuk prints this year (size above $200m) vs 36 last year, which was the highest ever for a single year. Of the 45 Sukuk, 21 came from KSA and 12 from the UAE.

GCC & Egypt hard currency bonds total issuance



2024 YTD Issuance Spilt		
UAE	$32.9bn	32%
KSA	$53.7bn	52%
Qatar	$9.1bn	9%
Bahrain	$3bn	3%
Oman	$1.8bn	1%
Kuwait	$3.4bn	3%
Egypt	-	-
Sov	$29.5bn	28%
Fin	$32bn	31%
GREs	$39.6bn	38%
Corp	$2.7bn	3%
Conventional bonds	$65.3bn	63%
Islamic bonds (Sukuk)	$38.6bn	37%

Note: *Hard currency (US$, €, £, AU$, JP¥, CA$, CHF) bonds & sukuk issuances from the six nations in the GCC & Egypt; This includes both fixed and floating rate issuances of $100m or above and maturity of 1-year or above; All figures are indicative figures as the analysis is limited by the availability of information from a third-party database; Source: Bloomberg / FAB

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 4.3Y	8-Jan-24	Fin	Y	N	USD	5y	800	T+85	101.876	+1.876	T+77	-8
KSA 4.75 1/30 5.3Y	8-Jan-24	Sov	N	N	USD	6y	3250	T+90	101.934	+2.639	T+79	-11
KSA 5 1/34 9.3Y	8-Jan-24	Sov	N	N	USD	10y	4000	T+110	102.758	+3.765	T+89	-21
KSA 5.75 1/54 29.3Y	8-Jan-24	Sov	N	N	USD	30y	4750	T+170	102.396	+4.604	T+150	-20
KFHKK 5.011 1/29 S 4.3Y	10-Jan-24	Fin	Y	N	USD	5y	1000	T+105	102.308	+2.308	T+87	-18
OTELSU 5.375 1/31 S 6.3Y	17-Jan-24	Corp-GRE	Y	N	USD	7y	500	T+131	101.087	+1.087	T+153	+22
QIIKQD 5.247 1/29 S 4.3Y	17-Jan-24	Fin	Y	Y	USD	5y	750	T+160	103.161	+3.161	T+89	-71
BSFR 5 1/29 S 4.3Y	18-Jan-24	Fin	Y	N	USD	5y	700	T+105	102.034	+2.388	T+94	-11
PIFKSA 5 1/29 4.3Y	22-Jan-24	Corp-GRE	N	N	USD	5y	1750	T+115	101.757	+2.541	T+98	-17
PIFKSA 5.25 1/34 9.3Y	22-Jan-24	Corp-GRE	N	N	USD	10y	1750	T+145	102.702	+5.018	T+112	-33
PIFKSA 5.375 1/54 29.3Y	22-Jan-24	Corp-GRE	N	N	USD	30y	1500	T+205	94.131	+7.513	T+170	-35
QNBK 4.875 1/29 4.3Y	23-Jan-24	Fin	N	N	USD	5y	1000	T+100	102.083	+2.883	T+81	-19
BHRAIN 6 2/31 S 6.4Y	6-Feb-24	Sov	Y	N	USD	7y	1000	T+193	105.282	+5.282	T+127	-66
BHRAIN 7.5 2/36 11.4Y	6-Feb-24	Sov	N	N	USD	12y	1000	T+341	108.392	+8.392	T+269	-72
SECO 4.942 2/29 S 4.4Y	6-Feb-24	Corp-GRE	Y	N	USD	5y	800	T+90	102.366	+2.366	T+80	-10
SECO 5.194 2/34 S 9.4Y	6-Feb-24	Corp-GRE	Y	N	USD	10y	1400	T+110	104.121	+4.121	T+89	-21
ISCODV 4.95 2/29 S 4.4Y	7-Feb-24	Corp-GRE	Y	N	USD	5y	500	T+92	101.423	+1.423	T+104	+12
MAZOON 5.5 2/29 S 4.4Y	7-Feb-24	Corp-GRE	Y	N	USD	5y	500	T+160	101.894	+2.535	T+146	-14
ESICSU 5.831 2/29 S 4.4Y	7-Feb-24	Corp	Y	N	USD	5y	700	T+180	103.210	+3.210	T+144	-36
SNBAB 5.129 2/29 S 4.4Y	20-Feb-24	Fin	Y	Y	USD	5y	850	T+90	102.722	+2.722	T+89	-1
FABUH 5 2/29 4.4Y	21-Feb-24	Fin	N	N	USD	5y	850	T+90	102.741	+3.482	T+76	-14
BINHLD 9.625 2/27 S 2.4Y	22-Feb-24	Corp	Y	N	USD	3y	500	T+515	103.781	+3.781	T+430	-85
DIBUH 5.243 3/29 S 4.4Y	26-Feb-24	Fin	Y	Y	USD	5y	1000	T+95	103.025	+3.025	T+93	-2
PIFKSA 5.171 3/31 S 6.4Y	27-Feb-24	Corp-GRE	Y	N	USD	7y	2000	T+85	102.856	+2.856	T+103	+18
SHJGOV 6.125 3/36 11.4Y	28-Feb-24	Sov	N	Y	USD	12y	1000	T+195	102.814	+3.725	T+203	+8
ALINMA Perp 3/29 S 4.4Y to Call	28-Feb-24	Fin	Y	N	USD	Perp	1000	T+234	104.389	+4.389	T+181	-53
ARACEN 9.5 3/29 S 4.4Y	29-Feb-24	Corp	Y	N	USD	5y	600	T+534	104.716	+4.716	T+431	-103
RJHIAB 5.047 3/29 S 4.4Y	5-Mar-24	Fin	Y	Y	USD	5y	1000	T+90	102.697	+2.697	T+83	-7
DHBKQD 5.25 3/29 4.4Y	5-Mar-24	Fin	N	N	USD	5y	500	T+130	101.548	+2.353	T+134	+4
MUBAUH 4.959 4/34 S 9.5Y	26-Mar-24	Corp-GRE	Y	N	USD	10y	1000	T+70	104.134	+4.134	T+67	-3
COMQAT 5.375 3/29 4.5Y	26-Mar-24	Fin	N	N	USD	5y	750	T+125	103.693	+4.237	T+92	-33
ADGB 4.875 4/29 4.6Y	23-Apr-24	Sov	N	N	USD	5y	1750	T+35	103.669	+4.068	T+46	+11
ADGB 5 4/34 9.6Y	23-Apr-24	Sov	N	N	USD	10y	1500	T+45	106.068	+6.410	T+48	+3
ADGB 5.5 4/54 29.6Y	23-Apr-24	Sov	N	N	USD	30y	1750	T+90	107.074	+8.747	T+96	+6
KIBKK Perp 5/29 S 4.6Y to Call	24-Apr-24	Fin	Y	N	USD	Perp	300	T+195	102.800	+2.799	T+245	+50
APICOR 5.428 5/29 4.6Y	25-Apr-24	Supra	N	Y	USD	5y	750	T+74	101.750	+1.750	T+139	+65
ADQABU 5.375 5/29 4.6Y	30-Apr-24	Corp-GRE	N	N	USD	5y	1250	T+80	104.371	+4.902	T+76	-4
ADQABU 5.5 5/34 9.6Y	30-Apr-24	Corp-GRE	N	N	USD	10y	1250	T+90	106.420	+6.913	T+90	-0
ALDAR 5.5 5/34 S 9.6Y	8-May-24	Corp-GRE	Y	Y	USD	10y	500	T+110	106.533	+7.170	T+88	-22
ISDB 4.754 5/29 S 4.6Y	8-May-24	Supra	Y	N	USD	5y	2000	T+50	104.165	+4.165	T+21	-29
RJHIAB Perp 5/29 S 4.6Y to Call	9-May-24	Fin	Y	Y	USD	Perp	1000	T+189	104.982	+4.982	T+163	-27
EIBUH 5.431 5/29 S 4.7Y	21-May-24	Fin	Y	Y	USD	5y	750	T+100	104.016	+4.016	T+93	-7
QATAR 4.625 5/29 4.7Y	21-May-24	Sov	N	Y	USD	5y	1000	T+30	103.104	+3.606	T+34	+4
QATAR 4.75 5/34 9.7Y	21-May-24	Sov	N	Y	USD	10y	1500	T+40	105.257	+5.792	T+35	-5
MUBAUH 5.294 6/34 9.7Y	23-May-24	Corp-GRE	N	N	USD	10y	750	T+80	105.323	+5.323	T+85	+5
KSA 5.25 6/27 S 2.7Y	28-May-24	Sov	Y	N	USD	3y	1250	T+60	102.826	+3.138	T+58	-2
KSA 5.25 6/30 S 5.7Y	28-May-24	Sov	Y	N	USD	6y	1500	T+75	104.402	+4.904	T+82	+7
KSA 5.25 6/34 S 9.7Y	28-May-24	Sov	Y	N	USD	10y	2250	T+85	104.873	+6.036	T+86	+1
GULINT 5.75 6/29 4.7Y	29-May-24	Fin	N	N	USD	5y	500	T+130	105.004	+5.777	T+103	-27
NTBKKK 5.5 6/30 5.7Y	30-May-24	Fin	N	Y	USD	6y	500	T+95	104.100	+4.195	T+98	+3
BBK 6.875 6/29 4.7Y	30-May-24	Fin	N	N	USD	5y	500	T+230	103.876	+3.876	T+237	+7
MASQUH Perp 6/29 4.7Y to Call	3-Jun-24	Fin	N	N	USD	Perp	500	T+276	104.392	+4.392	T+256	-20
PIFKSA 5.125 6/29 4.7Y	4-Jun-24	Corp-GRE	N	N	GBP	5y	300	UKT+115	100.761	+1.239	T+118	+3
PIFKSA 5.625 6/39 14.7Y	4-Jun-24	Corp-GRE	N	N	GBP	15y	350	UKT+125	101.191	+1.552	T+131	+6
ARADAD 8 6/29 S 4.7Y	11-Jun-24	Corp-GRE	Y	N	USD	5y	550	T+358	103.118	+3.118	T+364	+6
UAE 4.857 7/34 9.7Y	25-Jun-24	Sov	N	N	USD	10y	1500	T+60	104.510	+4.510	T+54	-6
SIB 5.25 7/29 S 4.8Y	26-Jun-24	Fin	Y	N	USD	5y	500	T+105	102.816	+3.405	T+103	-2
ENEDEV 5.662 7/31 S 6.7Y	26-Jun-24	Corp-GRE	Y	N	USD	7y	750	T+135	103.406	+3.406	T+144	+9
WARBAB 5.351 7/29 S 4.8Y	3-Jul-24	Fin	Y	Y	USD	5y	500	T+105	103.260	+3.260	T+104	-1

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 6.3Y	10-Jul-24	Sov	N	Y	EUR	7y	500	MS+190	100.429	+0.777	MS+232	+42
ARAMCO 5.25 7/34 9.8Y	10-Jul-24	Corp-GRE	N	N	USD	10y	2000	T+105	103.248	+3.908	T+107	+2
ARAMCO 5.75 7/54 29.8Y	10-Jul-24	Corp-GRE	N	N	USD	30y	2000	T+145	101.683	+4.220	T+155	+10
ARAMCO 5.875 7/64 39.8Y	10-Jul-24	Corp-GRE	N	N	USD	40y	2000	T+155	101.570	+3.931	T+169	+14
FABUH 5.804 1/35 10.3Y	9-Jul-24	Fin	N	N	USD	11y	750	T+155	103.176	+3.176	T+153	-2
GASBCM 5.8528 2/36 11.4Y	17-Jul-24	Corp-GRE	N	N	USD	12y	1400	T+170	103.764	+3.764	T+162	-8
GASBCM 6.1027 8/42 17.9Y	17-Jul-24	Corp-GRE	N	N	USD	18y	1600	T+195	103.952	+3.952	T+195	+0
MASDAR 4.875 7/29 4.8Y	18-Jul-24	Corp-GRE	N	Y	USD	5y	500	T+95	101.951	+2.655	T+88	-7
MASDAR 5.25 7/34 9.8Y	18-Jul-24	Corp-GRE	N	Y	USD	10y	500	T+115	103.990	+4.520	T+98	-17
RAKBNK 5.375 7/29 4.8Y	18-Jul-24	Fin	N	Y	USD	5y	600	T+135	103.236	+3.513	T+110	-25
EQPCKW 5 9/31 S 6.9Y	29-Aug-24	Corp-GRE	Y	N	USD	7y	750	T+140	102.069	+3.074	T+101	-39
RAKBNK 5.8732 12/34 10.2Y	3-Sep-24	Fin	N	N	USD	10y	250	T+221	101.603	+1.603	T+198	-23
ADCBUH 5.361 3/35 10.4Y	3-Sep-24	Fin	N	N	USD	11y	500	T+170	102.624	+2.624	T+128	-42
PIFKSA 5.25 10/32 8Y	3-Sep-24	Corp - GRE	N	N	USD	8y	500	T+107	102.804	-0.064	T+106	-1
PIFKSA 4.375 9/27 S 2.9Y	3-Sep-24	Corp - GRE	Y	N	USD	3y	1500	T+75	99.700	+0.014	T+94	+19
BOSUH 5.25 9/29 4.9Y	4-Sep-24	Fin	N	N	USD	5y	500	T+190	99.089	+0.070	T+192	+2
ADNOCM 4.25 9/29 4.9Y	4-Sep-24	Corp - GRE	N	N	USD	5y	1000	T+70	99.883	+0.003	T+74	+4
ADNOCM 4.5 9/34 9.9Y	4-Sep-24	Corp - GRE	N	N	USD	10y	1500	T+85	98.878	-0.122	T+91	+6
ADNOCM 5.125 9/54 29.9Y	4-Sep-24	Corp - GRE	N	N	USD	30y	1500	T+115	98.976	+0.527	T+111	-4
ALAHKW Perp 9/29 4.9Y to Call	5-Sep-24	Fin	N	N	USD	Perp	300	T+293	100.296	+0.296	T+292	-1
QIBKQD 4.485 9/29 S 5Y	10-Sep-24	Fin	Y	N	USD	5y	750	T+100	100.412	+0.412	T+86	-14
QIIKQD Perp 10/29 S 5Y to Call	24-Sep-24	Fin	Y	N	USD	Perp	300	T+193	100.502	+0.502	T+181	-12
ARAMCO 4.25 10/29 S 5Y	25-Sep-24	Fin	Y	N	USD	5y	1500	T+85	99.384	-0.073	T+86	+1
ARAMCO 4.75 10/34 S 10Y	25-Sep-24	Fin	Y	N	USD	10y	1500	T+100	99.621	-0.135	T+105	+5
ADQABU 4.375 10/31 7Y	25-Sep-24	Fin	N	N	USD	7y	1000	T+85	99.560	+0.203	T+84	-1
ADQABU 5.25 10/54 30Y	25-Sep-24	Fin	N	N	USD	30y	1000	T+120	99.359	+0.565	T+121	+1
RIBL Perp 4/30 S 5.5Y to Call	26-Sep-24	Fin	Y	Y	USD	Perp	750	T+199	99.669	-0.331	T+203	+4

Source: Bloomberg/FAB

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