Credit Trading Daily Comment

Global Markets

10th October 2024

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Market Commentary

The macro backdrop showed improving sentiment overnight, with a strong rally in US equities ahead of earnings season, as investors become increasingly immune to geopolitical noise. US rates remain choppy, with10y USTs+28bp wider on the month leading to a sharp repricing lower in GCC credit. Fed minutes from the previous meeting released yesterday was in focus – while a substantial majority backed the 50bps cut, some officials preferred 25bps. Readings also pointed out that stronger-than-anticipated inflation in 1Q had been temporary and that the labor market remained solid. Treasuries were up 6bps in both 2yr and the 10yr tenor even as S&P hit record highs.

All focus now turns to the US CPI print tonight as a key data point to watch out for, with market estimates at +2.3%. The ongoing repricing of Fed expectations has lifted Treasury yields, as investors reassess the central bank's response to economic data. Adding to the uncertainty are the risks tied to the upcoming U.S. elections, which are making it tough for market players to say where yields will go once the votes are counted. Over in Asia, PBOC stated on Sunday that eligible brokers and insurers can now pledge assets such as bonds, stock ETFs, and shares of companies listed on the CSI 300 index to obtain liquid assets like treasury bonds from the central bank. It added that it is now accepting applications and may expand the facility's size in the future.

GCC credit saw a strong bounce yesterday in line with overall macro. On a spread basis we are now tighter on the month in line with credit indices CDX and XOVER.

Primary markets remain busy, with DIB printing an AT1 sukuk at 5.25%, 50bp tighter than IPTs of 5.75%, and SHARJAH's long 10 year sukuk came at T+140, 35bps tighter than IPTs. The demand for sukuk paper remains strong from the GCC investor base, whilst the secondary market has found a bottom, after consolidating earlier on in the week.

The IG space was up +0.5pt on average with duration recovering the most, +1.5pts in places. Across the IG space, notably KSA sovs and quasi sovs, we did see some early buying cares out of Asia, given cash prices were around 1pt lower from the previous Asia close. Much of the flow we see still remains in the most recent issues, namely ADQ, Aramco and Taqa which are all now trading in and around reoffer spread levels.

High yield was stable and well bid especially 'go-go' names such as EGYPT and JORDAN bouncing by 0.25pt to 0.5pt higher.

Flow wise we saw Asia real money trimming risk across IG and HY, European real money buying high beta, and ETF flow marginally skewed to net selling. Looking ahead, the GCC credit market continues to show resilience to external macro, with credit spreads relatively rangebound.

Synthetics & Rates	Category	Prev day Close	Change (in basis points)		
			1D	1W	1M
JPM EMBI Global Spread bps	Index	311.0	-5.1	-10.3	-39.4
GCC IG + HY Spread (BBG) bps	Index	100.8	-4.8	-12.0	-23.5
ITRX Main 5Y Spread bps	CDS	57.5	-0.8	-2.0	+2.2
ITRX Xover 5Y Spread bps	CDS	309.8	-4.3	-5.8	+10.1
5Y US Treasury Yield	Rates	3.917%	+7.1	+36.3	+43.0
10Y US Treasury Yield	Rates	4.073%	+6.1	+29.2	+37.2

Source: Bloomberg/FAB

Stocks / Commodities / Currencies	Category	Prev day Close	Change (in %)		
			1D	1W	1M
Dow Jones Inds. Avg (US)	DM - Equities	42,512	+1.0%	+0.7%	+4.1%
S&P 500 (US)	DM - Equities	5,792	+0.7%	+1.4%	+5.9%
Nasdaq Composite (US)	DM - Equities	18,292	+0.6%	+2.0%	+8.3%
Nikkei 225 (Japan)	DM - Equities	39,278	+0.9%	+3.9%	+8.5%
Hang Seng (Hong Kong)	EM - Equities	20,637	-1.4%	-8.0%	+20.0%
CSI 300 (China)	EM - Equities	3,956	-7.1%	-1.5%	+23.9%
Abu Dhabi - ADX	EM - Equities	9,283	+0.5%	-0.3%	-0.8%
Saudi Arabia	EM - Equities	11,927	-0.8%	-1.0%	-0.3%
Egypt	EM - Equities	31,175	+1.0%	-0.5%	+2.6%
DXY US$ Index	Currency	102.93	+0.4%	+1.2%	+1.4%
WTI Oil $/bbl	Commodity	73.24	-0.4%	+4.5%	+6.6%
Gold spot $/oz	Commodity	2,608	-0.5%	-1.9%	+4.0%

Source: Bloomberg/FAB

Major Headlines

- Bahrain’s GFH wins investors' approval for $500mln sukuk programme (Source: Trade Arabia)
- Egypt's annual urban inflation rate rises to 26.4% as subsidy cuts bite (Source: The National)
- JPMorgan Sees Record Emerging-Market Bond Sales for EMEA in 2024 (Source: Bloomberg)
- Foreign investments surge in Saudi stocks, reaching $1.02bn in September (Source: Arab News)
- Outstanding global sukuk hit $900bn by Q3: Fitch Ratings (Source: Arab News)

Key Macro Data Releases

Region	Data series	Release Date	Period	Survey Median	Prior Reading
US	CPI MoM	10/Oct	Sep	0.1%	0.2%
	CPI Core MoM	10/Oct	Sep	0.2%	0.3%
	CPI YoY	10/Oct	Sep	2.3%	2.5%
	CPI Core YoY	10/Oct	Sep	3.2%	3.2%
	Initial Jobless Claims	10/Oct	Oct 5	230k	225k
	PPI MoM	11/Oct	Sep	0.1%	0.2%
	PPI Core MoM	11/Oct	Sep	0.2%	0.3%
	PPI YoY	11/Oct	Sep	1.6%	1.7%
	PPI Core YoY	11/Oct	Sep	2.7%	2.4%
	U. of Mich. Sentiment	11/Oct	Oct	70.5	70.1
	UAE M3 Money Supply YoY	07-15/Oct	Jul	-	14.7%
	Dubai CPI YoY	10-15/Oct	Sep	-	3.38%
	Saudi Industrial Production YoY	10/Oct	Aug	-	1.6%
	Saudi CPI YoY	15/Oct	Sep	-	1.58%
	Oman CPI YoY	15-22/Oct	Sep	-	1.05%
	Kuwait CPI YoY	18-20/Oct	Sep	-	2.92%
	Egypt Production Index MoM	10/Oct	Aug	-	6.64%
	Egypt Lending Rate	17/Oct	Oct 17	-	28.25%
	Egypt Deposit Rate	17/Oct	Oct 17	-	27.25%

Source: Bloomberg/FAB

Continued…

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**

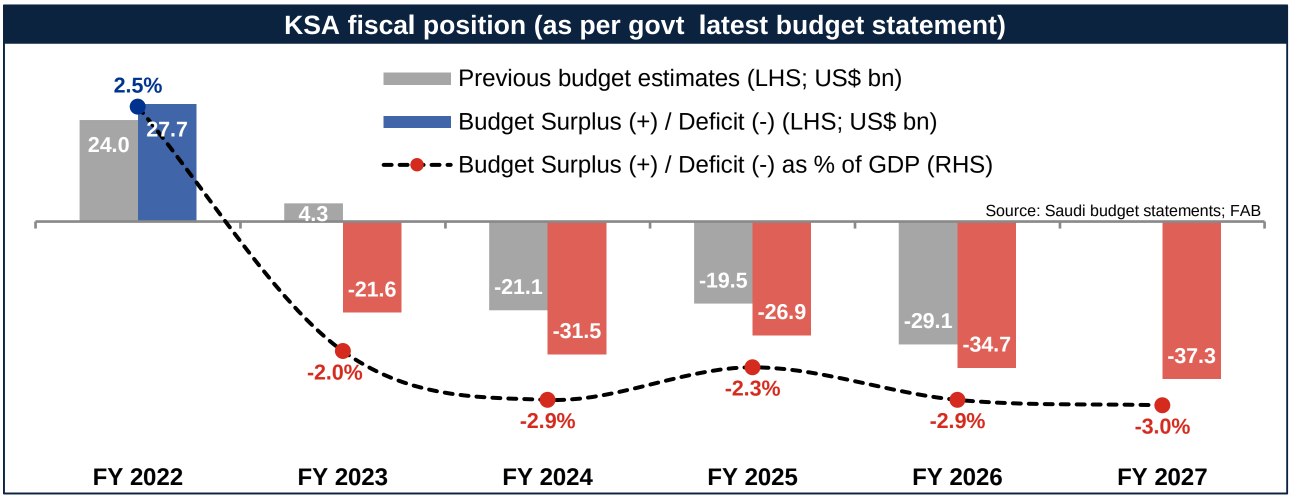
- **Client sells UAE 4.917% 33s @ 100.25 z+76**
- **Client buys ADGB 5% 34s @ 100.35 z+84**
    - Client moves from Federal level to ADGB emirate
    - 1 notch uptick in rating from AA- to AA
    - Picks up 8 bps in Z
    - Pick up in liquidity given ADGB is more recent issue
    - ADGB trades inside UAE normally, and will revert in our opinion
    - Works 15mm x 15mm

Credits specific commentary

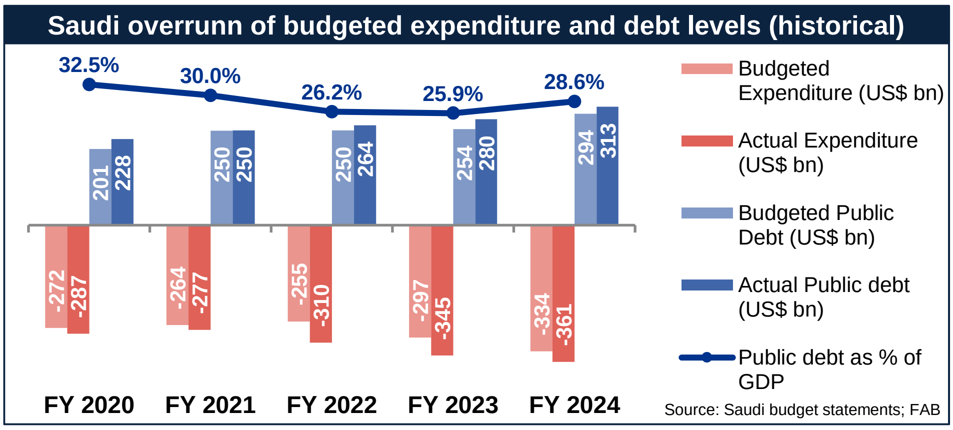
(1) Saudi Arabia this week revised up its fiscal deficit estimates for 2024 to 2027
Accumulated deficit between 2024 and 2027 would be around $130bn

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*



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.



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:

- Upside scenarios: 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.
- Downside scenarios: 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

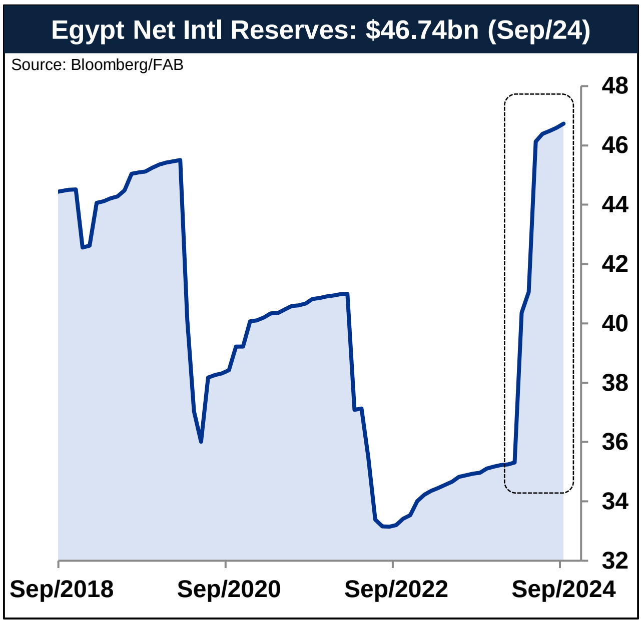
*<u>FDI</u>: On the FDI side also, Egypt is progressing well capitalizing its GCC ties. The credit has already benefitted from last week's news that PIF would invest $5bn in Egypt. More details have now emerged:

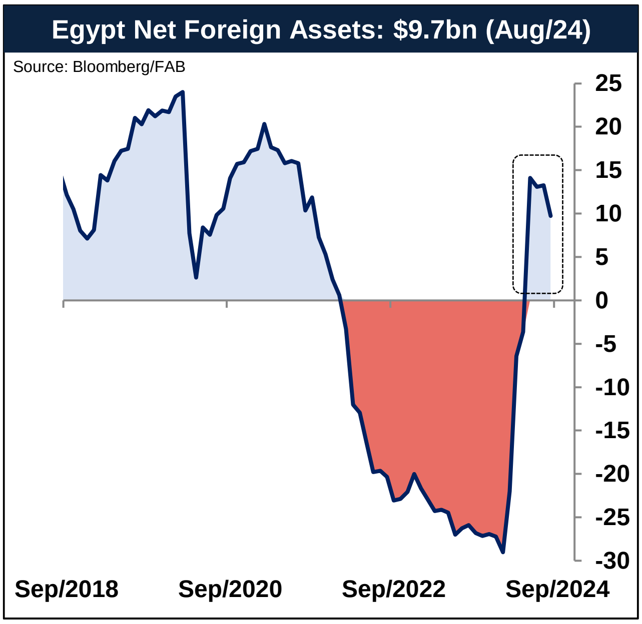
- This $5bn investment is on top on the support Egypt already received from Saudi - e.g. -
  - The $5.3bn medium to long-term deposits Saudi has made in Egypt's central bank
  - Saudi also made a $5bn short-term deposits in 2022, which is believed to have been rolled over
- The $5bn PIF investment is 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>

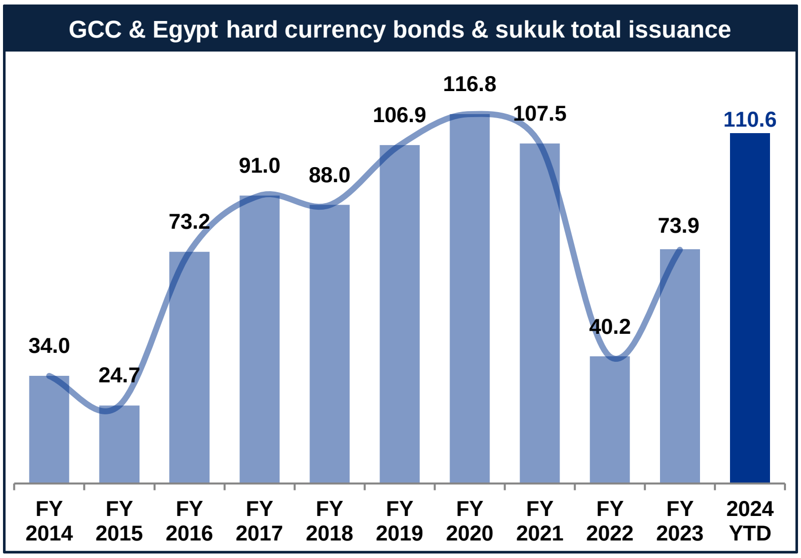
- Egypt's net international reserves are at $46.6bn at the end of September, up $13bn since the start of this year
- NFA peaked at $14.1bn in May and last stood at $9.7bn in Aug. It is the fourth straight month to stay positive, after staying deeply negative for more than two years
- The central bank 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%





(6) YTD new issuance from the 'GCC & Egypt' (hard currency bonds) – now reached $111bn, just $6bn short of the $117bn record set in 2020

1. Issuance from Saudi Arabia now accounts 50% of this, taking the figures to ~$54.9bn – 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 $12.6bn and expect few more to come from them
2. UAE issuers have raised ~$36.4bn this year accounting 33% of the total issuance
3. In terms of Conventional and Sukuk split – volume wise the ratio is 61%:39%
4. However, by count we have seen 50 Sukuk prints this year (size above $200m) vs 36 last year, which was the highest ever for a single year. Of the 47 Sukuk, 22 came from KSA and 14 from the UAE.



2024 YTD Issuance Spilt		
UAE	$36.4bn	33%
KSA	$54.9bn	50%
Qatar	$10.4bn	9%
Bahrain	$3bn	3%
Oman	$2.5bn	2%
Kuwait	$3.4bn	3%
Egypt	-	-
Sov	$30.3bn	27%
Fin	$35bn	32%
GREs	$42.6bn	39%
Corp	$2.7bn	2%
Conventional bonds	$68bn	61%
Islamic bonds (Sukuk)	$42.6bn	39%

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	100.831	+0.831	T+62	-23
KSA 4.75 1/30 5.3Y	8-Jan-24	Sov	N	N	USD	6y	3250	T+90	100.439	+1.144	T+72	-18
KSA 5 1/34 9.3Y	8-Jan-24	Sov	N	N	USD	10y	4000	T+110	100.857	+1.864	T+80	-30
KSA 5.75 1/54 29.3Y	8-Jan-24	Sov	N	N	USD	30y	4750	T+170	99.682	+1.890	T+142	-28
KFHKK 5.011 1/29 S 4.3Y	10-Jan-24	Fin	Y	N	USD	5y	1000	T+105	101.704	+1.704	T+61	-44
OTELSU 5.375 1/31 S 6.3Y	17-Jan-24	Corp-GRE	Y	N	USD	7y	500	T+131	100.635	+0.635	T+123	-8
QIIKQD 5.247 1/29 S 4.3Y	17-Jan-24	Fin	Y	Y	USD	5y	750	T+160	102.718	+2.718	T+59	-101
BSFR 5 1/29 S 4.3Y	18-Jan-24	Fin	Y	N	USD	5y	700	T+105	101.278	+1.632	T+73	-32
PIFKSA 5 1/29 4.3Y	22-Jan-24	Corp-GRE	N	N	USD	5y	1750	T+115	100.685	+1.469	T+86	-29
PIFKSA 5.25 1/34 9.3Y	22-Jan-24	Corp-GRE	N	N	USD	10y	1750	T+145	100.889	+3.205	T+102	-43
PIFKSA 5.375 1/54 29.3Y	22-Jan-24	Corp-GRE	N	N	USD	30y	1500	T+205	91.787	+5.169	T+162	-43
QNBK 4.875 1/29 4.3Y	23-Jan-24	Fin	N	N	USD	5y	1000	T+100	101.047	+1.846	T+64	-36
BHRAIN 6 2/31 S 6.3Y	6-Feb-24	Sov	Y	N	USD	7y	1000	T+193	103.787	+3.787	T+120	-73
BHRAIN 7.5 2/36 11.3Y	6-Feb-24	Sov	N	N	USD	12y	1000	T+341	106.793	+6.793	T+254	-87
SECO 4.942 2/29 S 4.3Y	6-Feb-24	Corp-GRE	Y	N	USD	5y	800	T+90	101.220	+1.220	T+68	-22
SECO 5.194 2/34 S 9.3Y	6-Feb-24	Corp-GRE	Y	N	USD	10y	1400	T+110	102.387	+2.387	T+77	-33
ISCODV 4.95 2/29 S 4.3Y	7-Feb-24	Supra	Y	N	USD	5y	500	T+92	98.750	-1.250	T+110	+18
MAZOON 5.5 2/29 S 4.3Y	7-Feb-24	Corp-GRE	Y	N	USD	5y	500	T+160	101.601	+2.242	T+112	-48
ESICSU 5.831 2/29 S 4.3Y	7-Feb-24	Corp	Y	N	USD	5y	700	T+180	102.266	+2.266	T+128	-52
SNBAB 5.129 2/29 S 4.4Y	20-Feb-24	Fin	Y	Y	USD	5y	850	T+90	101.857	+1.857	T+70	-20
FABUH 5 2/29 4.4Y	21-Feb-24	Fin	N	N	USD	5y	850	T+90	101.528	+2.269	T+66	-24
BINHLD 9.625 2/27 S 2.4Y	22-Feb-24	Corp	Y	N	USD	3y	500	T+515	103.027	+3.027	T+413	-102
DIBUH 5.243 3/29 S 4.4Y	26-Feb-24	Fin	Y	Y	USD	5y	1000	T+95	102.342	+2.342	T+68	-27
PIFKSA 5.171 3/31 S 6.4Y	27-Feb-24	Corp-GRE	Y	N	USD	7y	2000	T+85	101.503	+1.503	T+87	+2
SHJGOV 6.125 3/36 11.4Y	28-Feb-24	Sov	N	Y	USD	12y	1000	T+195	101.663	+2.574	T+183	-12
ALINMA Perp 3/29 S 4.4Y to Call	28-Feb-24	Fin	Y	N	USD	Perp	1000	T+234	104.242	+4.242	T+143	-91
ARACEN 9.5 3/29 S 4.4Y	29-Feb-24	Corp	Y	N	USD	5y	600	T+534	103.972	+3.972	T+414	-120
RJHIAB 5.047 3/29 S 4.4Y	5-Mar-24	Fin	Y	Y	USD	5y	1000	T+90	101.682	+1.682	T+68	-22
DHBKQD 5.25 3/29 4.4Y	5-Mar-24	Fin	N	N	USD	5y	500	T+130	101.186	+1.991	T+101	-29
MUBAUH 4.959 4/34 S 9.5Y	26-Mar-24	Corp-GRE	Y	N	USD	10y	1000	T+70	102.541	+2.540	T+54	-16
COMQAT 5.375 3/29 4.5Y	26-Mar-24	Fin	N	N	USD	5y	750	T+125	102.739	+3.283	T+75	-50
ADGB 4.875 4/29 4.6Y	23-Apr-24	Sov	N	N	USD	5y	1750	T+35	102.353	+2.752	T+37	+2
ADGB 5 4/34 9.6Y	23-Apr-24	Sov	N	N	USD	10y	1500	T+45	103.953	+4.295	T+40	-5
ADGB 5.5 4/54 29.6Y	23-Apr-24	Sov	N	N	USD	30y	1750	T+90	104.545	+6.218	T+85	-5
KIBKK Perp 5/29 S 4.6Y to Call	24-Apr-24	Fin	Y	N	USD	Perp	300	T+195	102.628	+2.628	T+208	+13
APICOR 5.428 5/29 4.6Y	25-Apr-24	Supra	N	Y	USD	5y	750	T+74	102.757	+2.757	T+65	-9
ADQABU 5.375 5/29 4.6Y	30-Apr-24	Corp-GRE	N	N	USD	5y	1250	T+80	103.023	+3.554	T+68	-12
ADQABU 5.5 5/34 9.6Y	30-Apr-24	Corp-GRE	N	N	USD	10y	1250	T+90	104.293	+4.786	T+83	-7
ALDAR 5.5 5/34 S 9.6Y	8-May-24	Corp-GRE	Y	Y	USD	10y	500	T+110	104.836	+5.473	T+76	-34
ISDB 4.754 5/29 S 4.6Y	8-May-24	Supra	Y	N	USD	5y	2000	T+50	102.569	+2.569	T+17	-33
RJHIAB Perp 5/29 S 4.6Y to Call	9-May-24	Fin	Y	Y	USD	Perp	1000	T+189	104.469	+4.469	T+132	-57
EIBUH 5.431 5/29 S 4.6Y	21-May-24	Fin	Y	Y	USD	5y	750	T+100	103.530	+3.530	T+63	-37
QATAR 4.625 5/29 4.6Y	21-May-24	Sov	N	Y	USD	5y	1000	T+30	101.790	+2.292	T+25	-5
QATAR 4.75 5/34 9.6Y	21-May-24	Sov	N	Y	USD	10y	1500	T+40	103.369	+3.904	T+25	-15
MUBAUH 5.294 6/34 9.6Y	23-May-24	Corp-GRE	N	N	USD	10y	750	T+80	103.520	+3.520	T+74	-6
KSA 5.25 6/27 S 2.6Y	28-May-24	Sov	Y	N	USD	3y	1250	T+60	101.899	+2.211	T+53	-7
KSA 5.25 6/30 S 5.6Y	28-May-24	Sov	Y	N	USD	6y	1500	T+75	102.863	+3.365	T+72	-3
KSA 5.25 6/34 S 9.6Y	28-May-24	Sov	Y	N	USD	10y	2250	T+85	102.913	+4.076	T+78	-7
GULINT 5.75 6/29 4.7Y	29-May-24	Fin	N	N	USD	5y	500	T+130	104.237	+5.010	T+77	-53
NTBKKK 5.5 6/30 5.7Y	30-May-24	Fin	N	Y	USD	6y	500	T+95	103.286	+3.381	T+77	-18
BBK 6.875 6/29 4.7Y	30-May-24	Fin	N	N	USD	5y	500	T+230	103.703	+3.703	T+201	-29
MASQUH Perp 6/29 4.7Y to Call	3-Jun-24	Fin	N	N	USD	Perp	500	T+276	104.041	+4.041	T+224	-52
PIFKSA 5.125 6/29 4.7Y	4-Jun-24	Corp-GRE	N	N	GBP	5y	300	UKT+115	99.998	+0.476	T+114	-1
PIFKSA 5.625 6/39 14.7Y	4-Jun-24	Corp-GRE	N	N	GBP	15y	350	UKT+125	100.241	+0.602	T+117	-8
ARADAD 8 6/29 S 4.7Y	11-Jun-24	Corp-GRE	Y	N	USD	5y	550	T+358	102.816	+2.816	T+334	-24
UAE 4.857 7/34 9.7Y	25-Jun-24	Sov	N	N	USD	10y	1500	T+60	102.459	+2.459	T+46	-14
SIB 5.25 7/29 S 4.7Y	26-Jun-24	Fin	Y	N	USD	5y	500	T+105	102.402	+2.991	T+72	-33
ENEDEV 5.662 7/31 S 6.7Y	26-Jun-24	Corp-GRE	Y	N	USD	7y	750	T+135	102.551	+2.551	T+119	-16
WARBAB 5.351 7/29 S 4.7Y	3-Jul-24	Fin	Y	Y	USD	5y	500	T+105	102.731	+2.731	T+77	-28

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	100.258	+0.606	MS+210	+20
ARAMCO 5.25 7/34 9.8Y	10-Jul-24	Corp-GRE	N	N	USD	10y	2000	T+105	101.147	+1.807	T+100	-5
ARAMCO 5.75 7/54 29.8Y	10-Jul-24	Corp-GRE	N	N	USD	30y	2000	T+145	98.330	+0.867	T+152	+7
ARAMCO 5.875 7/64 39.8Y	10-Jul-24	Corp-GRE	N	N	USD	40y	2000	T+155	98.361	+0.722	T+163	+8
FABUH 5.804 1/35 10.3Y	9-Jul-24	Fin	N	N	USD	11y	750	T+155	101.584	+1.584	T+150	-5
GASBCM 5.8528 2/36 11.4Y	17-Jul-24	Corp-GRE	N	N	USD	12y	1400	T+170	101.670	+1.670	T+155	-15
GASBCM 6.1027 8/42 17.9Y	17-Jul-24	Corp-GRE	N	N	USD	18y	1600	T+195	102.006	+2.006	T+181	-14
MASDAR 4.875 7/29 4.8Y	18-Jul-24	Corp-GRE	N	Y	USD	5y	500	T+95	101.022	+1.726	T+68	-27
MASDAR 5.25 7/34 9.8Y	18-Jul-24	Corp-GRE	N	Y	USD	10y	500	T+115	102.465	+2.995	T+82	-33
RAKBNK 5.375 7/29 4.8Y	18-Jul-24	Fin	N	Y	USD	5y	600	T+135	102.444	+2.721	T+86	-49
EQPCKW 5 9/31 S 6.9Y	29-Aug-24	Corp-GRE	Y	N	USD	7y	750	T+140	101.452	+2.457	T+73	-67
RAKBNK 5.8732 12/34 10.2Y	3-Sep-24	Fin	N	N	USD	10y	250	T+221	101.288	+1.287	T+163	-58
ADCBUH 5.361 3/35 10.4Y	3-Sep-24	Fin	N	N	USD	11y	500	T+170	101.275	+1.275	T+116	-54
PIFKSA 5.25 10/32 8Y	3-Sep-24	Corp - GRE	N	N	USD	8y	500	T+107	101.196	-1.671	T+96	-11
PIFKSA 4.375 9/27 S 2.9Y	3-Sep-24	Corp - GRE	Y	N	USD	3y	1500	T+75	99.122	-0.564	T+75	+0
BOSUH 5.25 9/29 4.9Y	4-Sep-24	Fin	N	N	USD	5y	500	T+190	98.757	-0.262	T+160	-30
ADNOCM 4.25 9/29 4.9Y	4-Sep-24	Corp - GRE	N	N	USD	5y	1000	T+70	98.336	-1.544	T+70	-0
ADNOCM 4.5 9/34 9.9Y	4-Sep-24	Corp - GRE	N	N	USD	10y	1500	T+85	97.112	-1.888	T+78	-7
ADNOCM 5.125 9/54 29.9Y	4-Sep-24	Corp - GRE	N	N	USD	30y	1500	T+115	96.258	-2.191	T+102	-13
ALAHKW Perp 9/29 4.9Y to Call	5-Sep-24	Fin	N	N	USD	Perp	300	T+293	99.914	-0.086	T+260	-33
QIBKQD 4.485 9/29 S 4.9Y	10-Sep-24	Fin	Y	N	USD	5y	750	T+100	99.998	-0.002	T+55	-45
QIIKQD Perp 10/29 S 5Y to Call	24-Sep-24	Fin	Y	N	USD	Perp	300	T+193	100.427	+0.427	T+143	-50
ARAMCO 4.25 10/29 S 5Y	25-Sep-24	Corp - GRE	Y	N	USD	5y	1500	T+85	98.247	-1.210	T+71	-14
ARAMCO 4.75 10/34 S 10Y	25-Sep-24	Corp - GRE	Y	N	USD	10y	1500	T+100	97.905	-1.851	T+94	-6
ADQABU 4.375 10/31 7Y	25-Sep-24	Corp - GRE	N	N	USD	7y	1000	T+85	98.182	-1.175	T+69	-16
ADQABU 5.25 10/54 30Y	25-Sep-24	Corp - GRE	N	N	USD	30y	1000	T+120	96.853	-1.941	T+111	-9
RIBL Perp 10/29 S 5Y to Call	26-Sep-24	Fin	Y	Y	USD	Perp	750	T+199	99.198	-0.802	T+175	-24
DUKHAN 4.56 10/29 S 5Y	2-Oct-24	Fin	Y	N	USD	5y	800	T+100	99.658	-0.342	T+70	-30
MAZOON 5.25 10/31 S 7Y	2-Oct-24	Corp - GRE	Y	N	USD	7y	750	T+165	99.482	-0.258	T+135	-30
TAQAUH 4.375 10/31 7Y	2-Oct-24	Corp - GRE	N	N	USD	7y	900	T+85	98.070	-1.222	T+70	-15
TAQAUH 4.75 3/37 12.4Y	2-Oct-24	Corp - GRE	N	Y	USD	12y	850	T+105	97.607	-1.629	T+92	-13
CBDUH 4.864 10/29 5Y	3-Oct-24	Fin	N	N	USD	5y	500	T+125	99.607	-0.393	T+101	-24
QTELQD 4.625 10/34 10Y	3-Oct-24	Corp - GRE	N	N	USD	10y	500	T+88	98.942	-0.355	T+67	-21

Source: Bloomberg/FAB

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